Evaluation of Budget 2017 Compliance Measures

Statistics & Economic Research Branch

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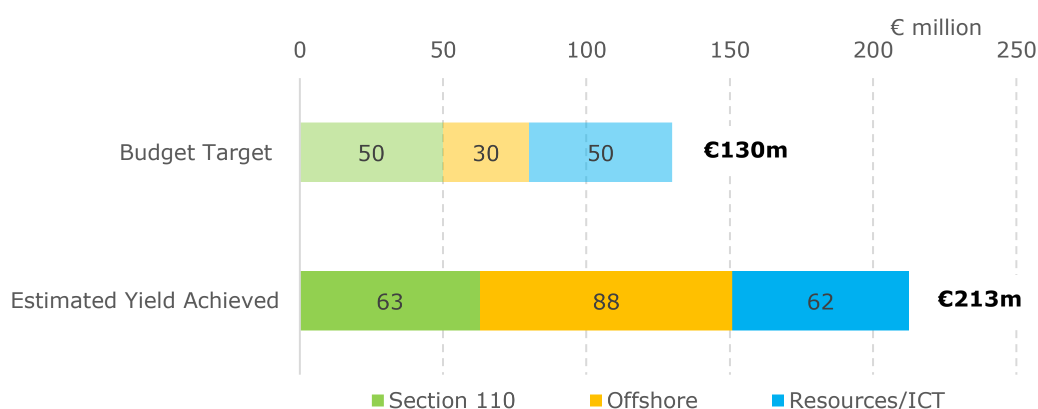
Executive Summary

Budget 2017 included a "compliance measures" item among the taxation policy changes. These revenue raising measures were projected at the time of the Budget (October 2016) to yield an additional €130 million to the Exchequer in 2017.

This paper evaluates the yield 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.

This analysis shows the target of €130 million for 2017 has been exceeded. Estimates prepared on a conservative basis indicate the measures may have yielded over €210 million in the year. Analysis for individual components shows:

- A preliminary €63 million increase in payments from section 110 companies is above the Budget target of €50 million. Due to timing factors and other issues, the impact is still being analysed. The policy measure is designed to have a deterrent effect (the success of such measures is the reduction in the activity taking place rather than an increase in tax).
- The €88 million in qualifying disclosures related to offshore assets around the May 2017 deadline provides a clear indicator of the success of this measure. This exceeds the Budget target of €30 million.
- The yield from additional audit staff in 2017 is estimated at around €24 million. Additional yield from ICT enhancements and increased use of data and advanced analytics is estimated at an increase of €38 million compared to 2016. Combined (€62 million) these exceed the Budget target of €50 million.



Sources: Revenue analysis. Note: Conservative estimates of yield achieved shown in the above figure.

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1 Introduction and Background

Budget 2017 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 2016) to yield an additional €130 million to the Exchequer in 2017.

Table 1: Budget 2017 Compliance Measures Projected Yield Breakdown

Measure	Projected Yield (Full Year)
Section 110 and Funds Changes	+€50m
Tackling offshore tax evasion	+€30m
Increase resource to confront non-compliance	+€50m

Source: Budget 2017.

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 spillover effects or be catalysed by other actions taken by Revenue.

This report follows the approach of similar analysis undertaken of Budget 2016 measures.[2]

[1] Summary of Budget 2017 Taxation Measures – Policy Changes, available at: http://www.budget.gov.ie/Budgets/2017/Documents/Summary%20of%20Budget%202017%20Taxation%20Measures%20-%20Policy%20Changes.pdf

[2] Available at: http://www.budget.gov.ie/Budgets/2018/Documents/Evaluation_of_Budget_2016_Compliance_Measures.pdf, along with covering letter from the Revenue Chairman to the Minister for Finance at: http://www.budget.gov.ie/Budgets/2018/Documents/Letter_re_Evaluation_of_Budget_2016_Compliance_Measures.pdf.

2 Section 110 and Funds Changes

Budget 2017 proposed the following (expected full year yield of +€50 million):

Draft amendments to section 110 will be included in the Finance Bill to address these unintended uses of the section. Further amendments will address other issues arising in relation to Funds and property.

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Changes to section 110 Taxes Consolidation Act 1997 and the taxation of Irish Fund vehicles (in Part 27 Taxes Consolidation Act 1997) were set out in section 22 and 23 Finance Act 2016. The changes, which dovetail together, restrict investors' ability to extract profits derived from Irish land and property without Irish tax arising.

There are a number of significant challenges assessing the contribution of the Finance Act 2016 changes to tax receipts in 2017 with the data available.

First, investors could simply restructure their investment to bring it within the normal corporate tax regime. The amendments are more properly described as "anti-avoidance measures" than "compliance measures", where success is based upon deterrence of the certain types of activities. To that end, section 23 included a specific provision to encourage the transfer of certain activities in this manner, while it is possible for companies to de-elect out of the section 110 regime. Once the activities transfer into the normal Corporation Tax regime, which was part of the intent of the amendments, it is no longer possible to isolate the tax paid.

Second, the Finance Act 2016 changes were introduced with effect from 6 September 2016 meaning that for a company with a 31 December 2016 year end, they impact on profits for 4 out of 12 months. For 31 December 2017 year ends, the Finance Act 2016 changes impacted on the full 12 months profits. With varying rules for preliminary tax and with returns for tax year 2017 (and balancing payments) not due to be filed until later in 2018, it is not possible at present to assess the full impact of the amendments.[3] Further, Finance Act 2017 also made changes for Section 110 companies in respect of interest accrued on or after 19 October 2017.

[3] These issues and the timing of tax returns and payments are explained in detail in the Appendix to "Corporation Tax 2017 Payments and 2016 Returns", published https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2018.pdf (April 2018).

Third, the changes provide for a "last man standing" approach to taxation on transactions between Irish Real Estate Funds (introduced by section 23) and section 110 companies. The first returns and filings by IREFs were not due until 2018, and the tax is only charged on IREFs when a distribution is made out of the IREF to the investor. No tax was due to be collected under section 23 during 2017.

Table 2 shows Corporation Tax receipts from section 110 companies in recent years. For context, it is important to note that section 110 companies make up only 1.6 per cent of all net Corporation Tax receipts in 2017, down from 2.7 per cent in 2016.

Table 2: Section 110 Net Corporation Tax Payments

	2013	2014	2015	2016	2017
All Section 110 Companies	€34m	€30m	€65m	€199m	€128m

Source: Revenue analysis.

The increase in payments in 2016 represents an increase in both final tax for 2016 and preliminary tax paid for 2017 on foot of the Finance Act 2016 changes. These changes likely account for a significant component of the €134 million increase between 2015 (€65 million) and 2016 (€199 million). A more conservative approach is to use 2015 as the base year for comparison, as this was before any of these changes started to impact. There is an increase of €63 million between 2015 (€65 million) and 2017 (€128 million).

Based on current data, it is reasonable to assume that the Finance Act 2016 amendments are the most significant factor in the 97 per cent increase (from €65 million to €128 million) in Corporation Tax receipts from section 110 companies. This €63 million increase should be considered as the initial impact of the Budget 2017 changes, future data and further analysis will be required to enable a more complete assessment.

3 Tackling Offshore Tax Evasion

Budget 2017 proposed the following (expected full year yield of +€30 million):

A comprehensive programme of targeted compliance interventions against those engaged in offshore tax evasion. This programme will be underpinned by applying advanced analytics techniques to the range of new data sources available through FATCA, EU and OECD exchange of information initiatives and supported by new legislation designed to encourage early disclosures of liabilities in relation to offshore accounts or assets by i) Denying the opportunity to make a qualifying disclosure in this area after 1/5/2017 and ii) Introducing a new strict liability offence for failure to return details of offshore accounts or other assets.

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Ireland continues to expand its network of exchange of information partners for data sharing with the goal of increased access to important financial information for taxation purposes. These include the Foreign Account Tax Compliance Act ("FATCA") with the United States of America, the Directive on Administrative Cooperation ("DAC") within the European Union ("EU"), and the Common Reporting Standard ("CRS") with member countries of the Global Forum on Transparency and Exchange of Information for Tax Purposes. These agreements vary but their objective is to exchange information across jurisdictions and between tax administrations. With more information available, tax administrations are better able to identify the tax owed by their residents.

The Foreign Income and Assets Disclosure ("FIAD") initiative encouraged individuals to disclose offshore assets to Revenue before a deadline of 1 May 2017. While qualifying disclosures still carried interest and penalties, penalties were reduced when the disclosure was made prior to 1 May 2017. For such qualifying disclosures, the penalty attached is between 3-10 per cent of the tax liability. After the deadline the penalty is up to 100 per cent of the liability.

Table 3 shows summary FIAD statistics. Based on data as of May 2018, Revenue has received qualifying disclosures valued at €87.6 million.

Table 3: Tackling Offshore Tax Evasion Summary Statistics

	Qualifying Disclosures
Number	2,828
Total Liability Declared	€87,562,164
Tax Owed	€56,157,143
Interest	€25,829,273
Penalty	€5,563,861

Source: Revenue analysis. Note: Qualifying disclosures require that all tax defaults be included in the disclosure. As such, it is possible that there is some disclosure value derived from domestic assets, it has been determined that these are likely to be negligible contribution of the above figures.

The disclosures relating to offshore assets come from a variety of different sources. Table 4 provides the breakdown by the source of the disclosure. Property, shares, bank accounts and pensions cover most of the disclosure count. In value, the top disclosures come from property, earned income, shares, trusts and disclosures from more than one source.

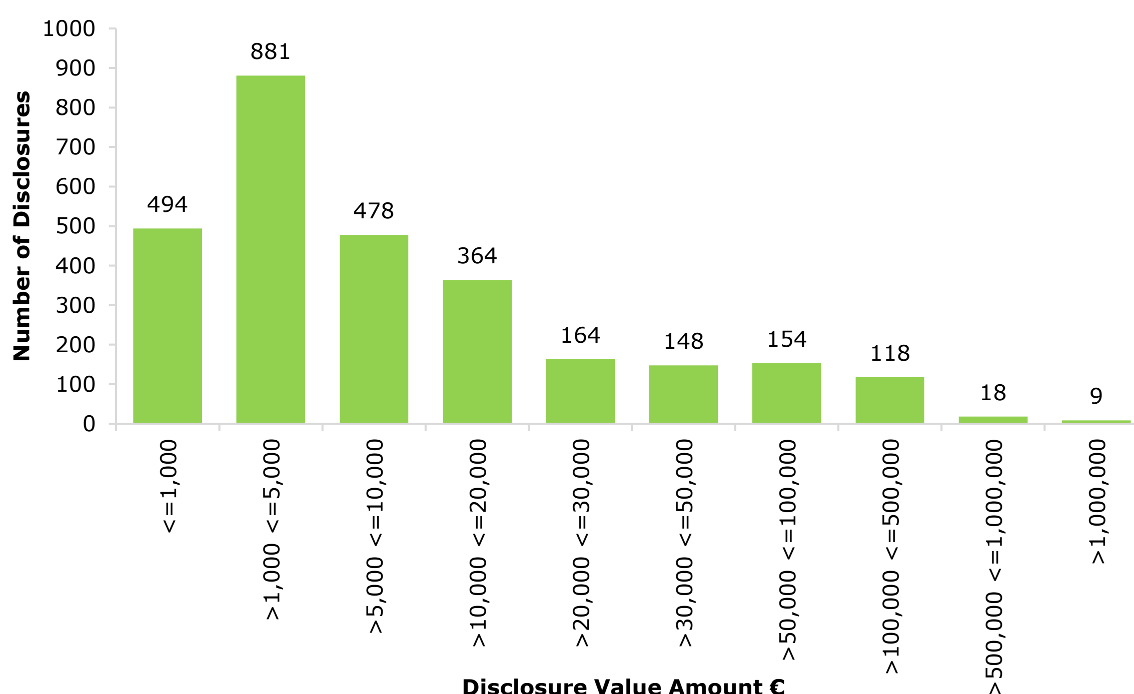
Table 4: Disclosure Sources Summary Statistics by Tax Liability

Source	Total Liability €m	Percentage of Total Liability	Number of Disclosures	Percentage of Disclosures
Property	17.4	20%	817	29%
Earned Income	12.1	14%	75	3%
Multiple	11.4	13%	116	4%
Shares	9.9	11%	567	20%
Trust	9.0	10%	29	1%
Bank Account	8.9	10%	486	17%
Offshore Fund	7.4	8%	124	4%
Pension	6.6	8%	457	16%
Unspecified	3.9	4%	132	5%
Inheritance	1.0	1%	25	1%
All	87.6	100.0%	2,828	100.0%

Source: Revenue analysis.

Figure 1 shows the frequency in size of disclosure (including the tax liability, interest, and penalty). There was a wide range of disclosure values made, varying from a few hundred euros in liability to over a million euros. Most of the disclosures are valued less than or equal to €20,000 (78.4 per cent). Approximately one third are between €1,000 and €5,000. The top 10 disclosures comprise around one fifth of the total value.

Figure 1: Number of Disclosures by Disclosure Value Range



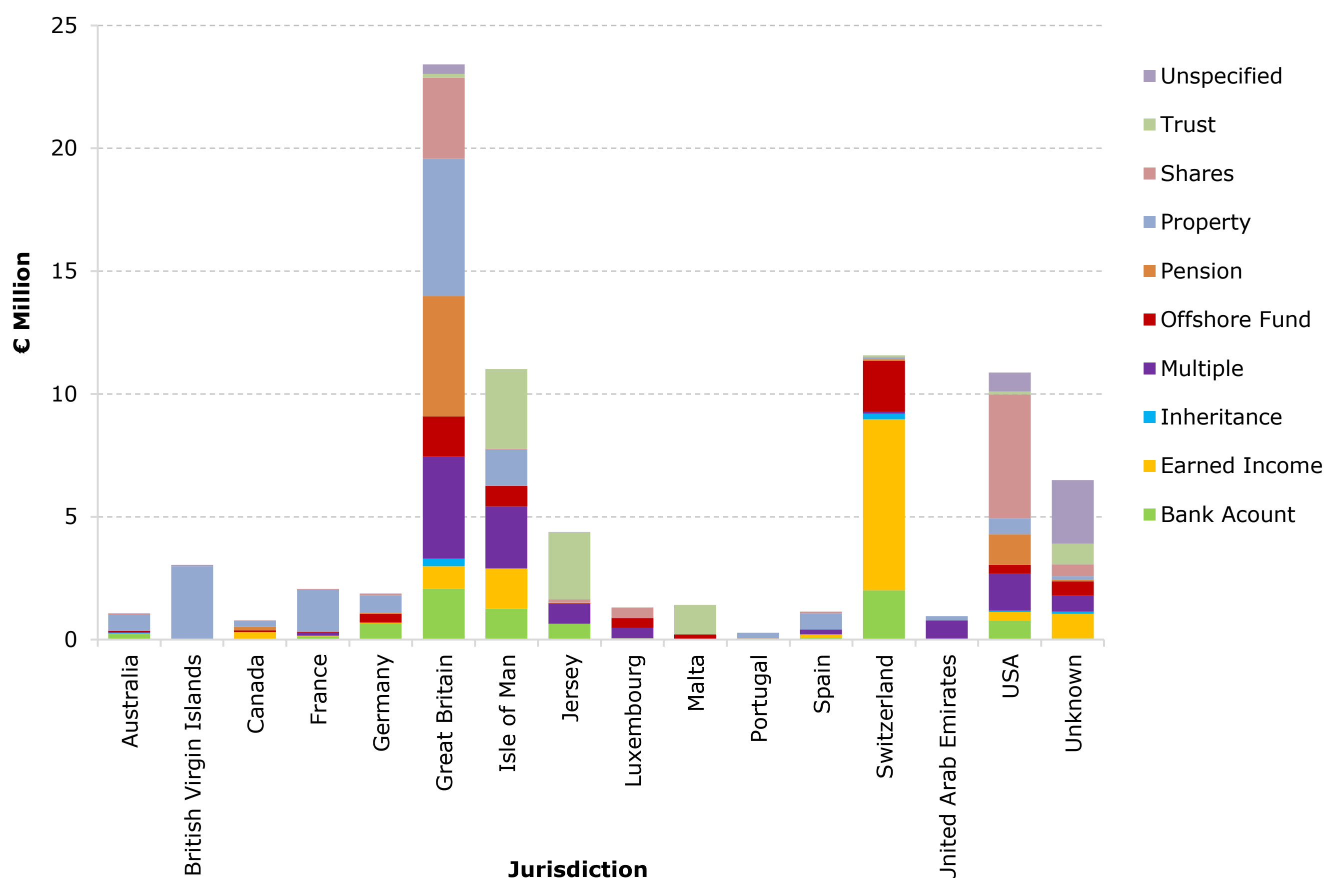
Source: Revenue analysis.

Analysis of the data suggestions that many of the lower value disclosures come from pensions, property, shares, and bank accounts. Property remains stable across the disclosure value ranges. As the value range increases there is an increasing number of disclosures from sources such as earned income, trusts, and multiple source disclosures.

The disclosures originate from a wide range of jurisdictions. Over 1,200 disclosures originate in Great Britain, the largest jurisdiction. Almost 14 per cent are from USA assets. Assets in Switzerland and Isle of Man make up a small proportion of the disclosures but hold over a quarter of the value (13.2 per cent and 12.6 per cent respectively).

The data also show that certain jurisdictions often contain large proportions of a specific disclosure source (Figure 2). Great Britain has an even mixture of disclosure types across its range of disclosure value. Nearly one quarter of the value is from property and one fifth is from pensions. Jersey and Malta are dominated by trust disclosures making up over half of their value. Australia, France, Portugal, and Spain are dominated by property disclosures. For the US, these derive over 40 per cent of value from share disclosures.

Figure 2: Source Breakdown by Jurisdiction



Source: Revenue analysis.

FIAD has a had a clear impact on the behaviour of the taxpayers who previously engaged in offshore tax evasion. The legislation has increased the visibility of penalties and encouraged compliance through qualifying disclosures. With disclosures of €88 million in 2017, this measure has clearly exceeded the Budget 2017 target of €30 million.

Ireland is one of the early adopters of automatic exchange of information ("AEOI") and engages in the automatic exchange of a range of data. Ireland also has an extensive network of tax treaties and is a signatory of the multilateral Convention on Mutual Administrative Assistance in Tax Matters ("the Convention") which provides for the automatic exchange of information with other jurisdictions. With ongoing exchanges and advanced analytics techniques being applied to the information received from other jurisdictions, it is to be expected the FIAD May 2017 disclosures will be followed over time by further increases in receipts as Revenue uses all of the information and tools available to tackle non-compliance in these areas.

4 Increase Resources to Confront Non-Compliance

Budget 2017 proposed the following (expected full year yield of +€50 million):

Increasing Revenue staff resources by 50 (full time equivalent) on audit and investigation activities as well as enhancing ICT systems capacity for data matching and data analytics will lead to a direct increase in tax and duty yield from compliance interventions.

The €50 million expected yield is split evenly, €25 million each from additional staff resources and the deployment of analytics and ICT developments to increase compliance intervention yield.

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Staff Resources

Through 2017, 718 staff members were appointed in Revenue from promotion, transfer and recruitment campaigns. Using Revenue's Performance Measurement Reporting System ("PMRS") and the Function Capture Allocation ("FCA") system data show that 172 were assigned to audit roles as their primary duties.[4] The threshold used to determine this assignment is that 50 per cent or more of time allocated for the staff member be committed to audit or risk management interventions. More than half of these (95) are appointed at Executive Officer grade.

Revenue's Comprehensive Review of Expenditure ("CRE") 2014 estimates the potential additional yield from increases in audit or other compliance staffing resources. These estimates (Table 5) are based on historical data recording the yield generated by staff conducting audits or other types of risk management interventions.

Table 5: Spend to Save and Efficiency Savings from Resource Increases

Increase	Number of Staff (full time equivalent)	Staff Cost	Year 1 Yield	Year 2 Yield
Audit Resource	100	€5m	€25m	€50m
Investigation Resource	20	€1.5m	€6m	€12m
Anti-Avoidance Resource	15	€1m	€5m	€10m
Oil/Tobacco/Alcohol Compliance Projects	100	€5m	€10m	€20m

Source: Revenue CRE 2014.

The recruitment of staff and their training and development is addressed as part of an overall workforce planning process in Revenue. The investment in the training and

[4] An "audit" role in this context includes staff undertaking other types of risk management interventions also.

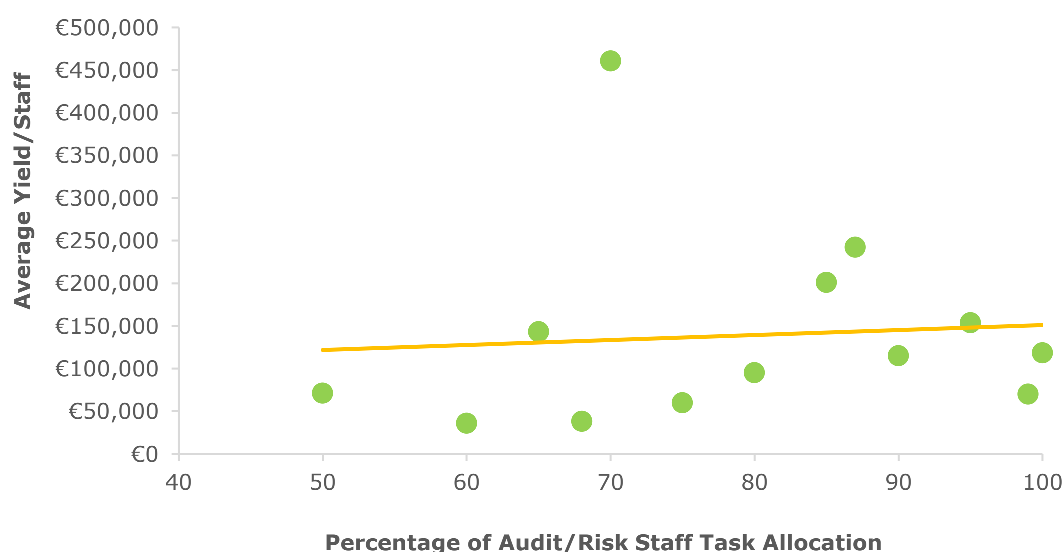
development of a Revenue auditor or investigator can take up to three years, depending on previous relevant experience. In addition, the loss of experienced personnel means that new staff, even when fully trained, may take time to replicate their productivity levels. For these reasons, first year ("Year 1") yields are expected to be lower, as indicated in the Table. The Budget 2017 measure, €25 million yield from 50 full time equivalents ("FTE"s), is based on "Year 2" levels.

The yield from Revenue audit staff in 2017 can be assessed on Year 1 and Year 2 bases.

The yield associated with the 172 staff members assigned to audit for 2017 was €22.1 million, from 3,993 audit/risk management interventions (an increase of €1.3 million from 2016 appointees while completing 220 less interventions). The average yield per staff member was €128,626.[5]

Not all audit staff work full time on audit.[6] The average yield per staff member broken down by percentage of staff time allocated to audit can be seen in Figure 3. There is a slight positive relationship between percentage of staff tasks allocated to audit/risk and average yield per staff member. Although the trend is somewhat weak, staff with full time commitment to audit roles have increased yields as would be expected.

Figure 3: Average Yield/Staff by Staff Time Allocation



Source: Revenue analysis. Note: The 70% allocation outlier impacts the slope of the best-fit line.

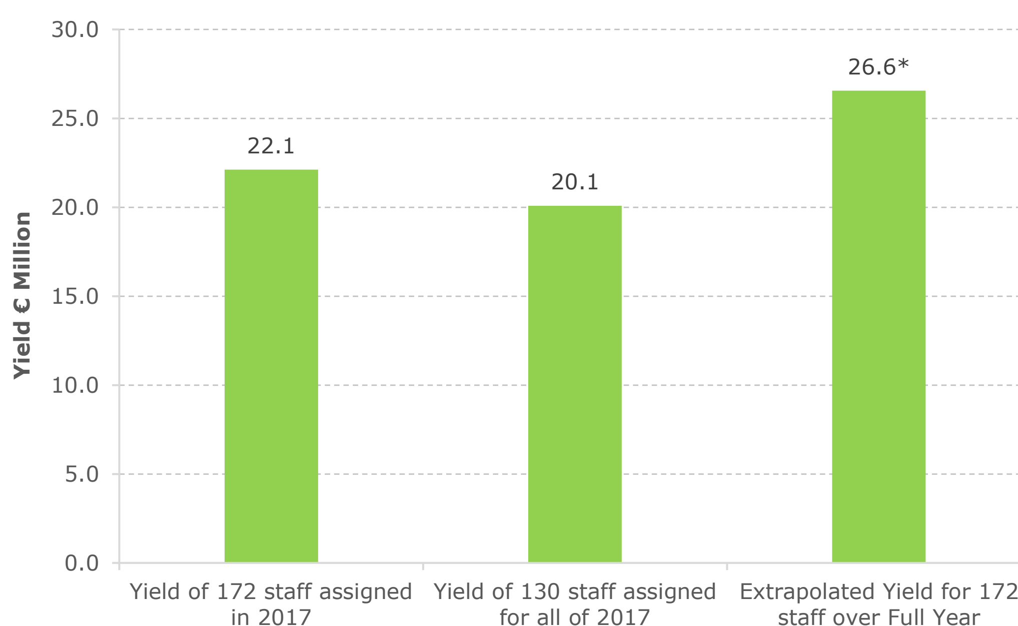
[5] It is useful to note that the Revenue Case Management ("RCM") system allocates audit cases and yields to a single staff member and this analysis cannot account for multiple staff working on any cases. As such, the cases are most often allocated to the first staff member assigned to the case and this often is the more experienced staff member.

[6] For example, of the 172 staff members assigned to audit in 2017, 42 of them started the University of Limerick Diploma in Applied Taxation programme in 2017. This programme is a collaboration with Revenue to commit increased resources into training and development of staff members.

The appointments of the 172 appointees in 2017 took place over the course of the year so not all worked in audit for the full year. Therefore, the cost of hiring these staff was not incurred for the full year. As such, it is important to analyse the yield of staff working full time on audit work for the full year where possible, to make comparisons to the potential yield of 50 new staff members based on CRE estimates.

Of the 172 staff members appointed to audit roles, 130 were assigned for the entire year.[7] The yield of this group was €20.1 million, an average yield per staff member of €154,431. Extrapolating this average to the total group, the yield would be €26.6 million had the staff been in their roles for the full year of 2017. Figure 4 provides a visual of these yields and projection.

Figure 4: 2017 Assignments to Audit, Yield Achieved and Extrapolated



Source: Revenue analysis.

Based upon the CRE estimates, 50 FTE should yield €12.5 million in "Year 1". For the 2017 appointee group, pro-rata for 50 FTEs, the extrapolated yield is €7.7 million.

In audit work, experience leads to efficiencies, best practice adoption and better outcomes. Continued on-the-job training provides Revenue staff with opportunities to master their skills and deliver higher future yields with efficiency. As the staff continue to receive training and experience they will deliver increased future yields. These are the reasons that CRE estimates are higher for "Year 2".

7 Based upon the staff members who were available for 98%-100% of the work year.

To assess the Budget 2017 target, set on a CRE "Year 2" basis, it is necessary to review overall yield of Revenue audit staff (rather than just the 2017 appointees).

The average audit yield in 2017 per FTE is €424,700. Caseworkers in Revenue work a mixture of audits and other types of risk management interventions. The average yield in 2017 for risk management interventions is €515,300 per FTE. The average yield for 50 trained staff (as envisaged in the Budget 2017 measure) working on audit or other risk management interventions is therefore €21.2 million or €25.8 million respectively depending on the mix of intervention types worked. As the audit / other risk management interventions mix is variable, the midpoint of €23.5 million offers an indicative estimate, which is slightly below the Budget target (€25 million).

Further confirmation of the effectiveness of Revenue's approach to training and development is shown in Table 6. In 2016, 157 new staff were assigned to audit. This group delivered a total yield of €22.8 million with an average of nearly €155,000 per case worker. Of this group, 139 continued in audit in 2017 with a higher average yield (nearly €282,000 per case worker) and greater total yield (€39.1 million) despite a reduction in number. For 2018 an accurate comparison is not possible until after year end but year to date figures extrapolated for a full year suggest an average yield of €310,000. This progression shows the 2016 recruits are on course to match the average yields noted above for overall (experienced) case workers.

Table 6: Audit Staff Recruited in 2016

	2016	2017	*2018 YTD**
Number of Active Case Workers	147	139	*117*
Interventions Closed	4,238	3,892	*1,816*
Total Yield	€22,781,175	€39,134,081	*€24,131,526*
Average per Case Worker	€154,974	€281,540	*€206,252*
Estimated Yield for 50 FTEs	€7.8m	€14.1m	*€10.3m*

Source: Revenue analysis. Note: *2018 Year To Date is the period up to 1 September 2018.

As noted earlier, Revenue experience suggests that training and development of an auditor or investigator can take up to three years. This analysis confirms the increasing returns after recruitment. The average yield for 2016 and 2017 recruits in their first year is very steady (€154,974 and €154,431 respectively). This gives confidence that the 2017 recruits are following the same progression as the 2016 case workers. The trend 2016 to 2018 supports the expectation (from CRE estimates) that 50 FTEs will deliver compliance measure yields of €25 million or more following completion of three years training.

ICT Systems Enhancement

Revenue is continually making increased use of ICT to improve customer service and deliver better compliance outcomes.[8] Data and advanced analytics enhance compliance work through data matching of multiple data sources, deployment of business intelligence tools to make data accessible to staff and risk and predictive models to identify and prioritise cases of intervention.

Revenue's 655,600 audit and other compliance interventions yielded €492 million 2017 (€555 million in 2016). Most, if not all, of these interventions make at least some use of data or analytics. The Revenue Case Management ("RCM") system records yield from interventions against the type of project involved. An assessment of the projects undertaken in 2017 suggests that €164 million yield arose from projects with very direct usage of, or heavily influenced by, ICT systems and data analytics or advanced analytics.

While it would not be unreasonable to consider this as yield from ICT systems and analytics, the Budget 2017 measure relates to enhancements. Looking at similar projects in 2016, these yielded €126 million. The difference between ICT driven projects in 2016 and 2017 is therefore an increased yield of around €38 million. Even if not all directly attributable to ICT systems and analytics enhancements, this suggests the Budget 2017 target (€25 million) was met.

[8] See for example, DPER's recent review of efficiency and digitalisation in Revenue http://www.per.gov.ie/wp-content/uploads/1.-Revenue-Digitalisation-Efficency-Effectiveness-and-Insights.pdf.

5 Conclusion

This analysis assesses the impact of the Budget 2017 compliance measures and attempts to identify yields that may be attributable to these amendments and the related investment from Revenue. With the complexity and variability of taxpayer behaviours, it is difficult to conclusively isolate the yields from the measures taken from economic conditions as well as other Revenue initiatives.

The analysis shows that the Budget 2017 target of €130 million has been met and exceeded with a conservative estimate of the total at over €210 million in year.

For the individual measures discussed in this report:

- A preliminary €63 million increase in payments from section 110 companies is above the Budget target of €50 million. As noted earlier in the report, due to timing factors, data in relation to the changes is still being gathered. The policy measure is designed to have a deterrent effect (the success of such measures is the reduction in the activity taking place rather than an increase in tax).
- The €88 million in qualifying disclosures related to offshore assets around the May 2017 deadline provides a clear indicator of the success of this measure. With disclosures under review by Revenue, there may be further uplift to this figure but it already far exceeds the Budget target of €30 million.
- The yield from additional audit staff in 2017 is estimated around €24 million (depending on the mix of intervention types). Additional yield from ICT enhancements and increased use of data and advanced analytics is estimated at an increase of €38 million compared to 2016. Combined (€62 million) these exceed the Budget target of €50 million.

Overall this analysis confirms that the estimates of yield by Revenue from the measures introduced in Budget 2017 have been delivered, as borne out by the subsequent analysis of the data now available for the year. Combined with the earlier analysis of Budget 2016 measures, this should provide confidence to support the introduction of similar measures in future Budgets. Analysis of Budget 2018 measures will be undertaken during 2019 when suitable data are available.