



**Irish Tax
Institute**

Leaders in Tax

Mr Niall Cody
Revenue Chairman
Revenue Commissioners
Dublin Castle
Dublin 2

Submitted to: strategystatement@revenue.ie

Registered Office
South Block
Longboat Quay
Grand Canal Harbour
Dublin 2

Tel.: +353 1 663 1700
Fax: +353 1 668 8387
E-mail: info@taxinstitute.ie
Web: www.taxinstitute.ie

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Dear Chairman

Subject: Consultation on the Revenue Statement of Strategy 2016 – 2019

The Irish Tax Institute welcomes the opportunity to share its perspective with you as Revenue prepares its Statement of Strategy 2016 – 2019.

We have worked closely with Revenue bi-laterally and through TALC (the Tax Administration Liaison Committee) on many elements of your Statement of Strategy 2015 – 2017. In particular, on key service issues forming part of Revenue's Customer Engagement Strategy and on some important administrative aspects of BEPS (Base Erosion and Profit Shifting) implementation including guidelines on the operation of the Knowledge Development Box and the introduction of Country-by-Country Reporting.

Mary Honohan – *President*, Mark Barrett, Marie Bradley, Dermot Byrne, Colm Browne, Sandra Clarke, Ciaran Desmond, David Fennell, Karen Frawley, Ronan Furlong, Johnny Hanna, Jim Kelly, Aoife Lavan, Jackie Masterson, Frank Mitchell, Martin Lambe (*Chief Executive*), Tom Reynolds, Kieran Twomey, Shane Wallace. *Immediate Past President* – Andrew Gallagher.

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We come to this consultation at a critical period in time for our members:

The global economic environment

The Irish economy is growing, Exchequer receipts are on the rise and more commercial transactions are taking place. However, global political and economic uncertainty prevails which could threaten the pace of continuing business growth in Ireland.

Media reports in recent weeks highlight that business sentiment and trading conditions in Ireland are already being impacted by the Brexit-vote in the UK. It is only over the course of time that the full impact of competitive challenges in a post-Brexit world will become apparent.

Economic growth in Europe remains sluggish and as one of the world's most open economies, Ireland is particularly exposed to these prevailing economic conditions.

The international tax framework

The focus is now on implementation of the OECD BEPS Actions, on new legislation from the EU including the Anti-Tax Avoidance Directive (ATAD) and on a huge increase globally in the exchange of information being driven by the demands for greater transparency. All these issues present complexity, uncertainty and cost for governments, tax authorities and businesses. The changing landscape will also, undoubtedly, give rise to more disputes and investment in resources to deal with dispute resolution procedures will be important.

Technology and the power of data

The development of technology globally is having a transformative impact on the operation of governments, businesses and tax administrations. Technology and the power of data is changing the nature of business transactions and changing the approach of tax administrations globally to compliance, customer service and intervention programmes. This will no doubt form an important part of the context for developing your new Statement of Strategy.

Statement of Strategy 2016 - 2019

The extent and pace of the changes we face during the course of the next Statement of Strategy present challenges for all of us. To be best placed to deal with these challenges, the Institute would like to see Revenue's Strategy give priority to three key areas:

1. Providing **certainty and consistency of treatment** to taxpayers wherever possible, in an uncertain world. Taxpayers and their advisers deal with complex tax law and regulation on a daily basis and in a self-assessment regime, there is a responsibility on the State and on Revenue to provide as much information and clarity to taxpayers as possible to enable them comply with the law.
2. Maintaining a focus on **low compliance costs** for taxpayers as well as low administration costs for Revenue. The cost of complying with tax responsibilities is significant for all businesses and, in proportionate terms, particularly for smaller businesses. We would like

to see the minimisation of taxpayer compliance costs recognised as a key strategic aim for Revenue in a period.

3. **Continuing the partnership** approach to tax compliance with the tax profession so that we build on Ireland's high compliance rates and our international reputation as a good place to do business.

We have outlined below some further detail on these priorities and we would be happy to meet and discuss, if that would be helpful.

1. Certainty and consistency of treatment

Revenue has a very important role to play in providing taxpayers with as much certainty as possible on their tax affairs. In our view, there are two important aspects to this role:

- providing "best in class" tax technical support to taxpayers and tax advisers; and
- providing clear and transparent information about Revenue's compliance model.

Providing "best in class" tax technical support

Irish businesses, large and small, are facing difficult trading circumstances for the foreseeable future. International competitiveness is rising and taxpayers and their advisers are working hard to maintain and improve tax compliance rates that are already very high by global standards. These businesses deserve to be at the heart of a Revenue customer service model that aims to provide a standard of technical support which is "best in class" internationally.

To achieve this, we believe that there needs to be an increased focus on the resourcing and delivery of Revenue's tax technical supports, and in particular the current model for the Revenue Technical Service (RTS) needs to be reformed. Businesses need a timely, efficient and responsive technical service to obtain certainty on their tax position when entering into commercial transactions. The current design of the RTS does not allow for direct interaction with a Revenue subject matter expert and this directly impacts on the quality and timeliness of the service provided. Direct interaction between tax advisers and Revenue's tax technical experts is essential in order to resolve complex technical issues efficiently. Such a channel of direct communication would also enhance consistency in responses, and aid collation of responses as part of Revenue's knowledge management procedures.

The tax affairs of larger businesses are particularly complex and this complexity is likely to increase in light of the changing global tax rules and an increased emphasis on transparency. A relaunched Revenue Cooperative Compliance Framework needs to focus on providing an open, responsive engagement platform resourced by dedicated relationship managers who are commercially aware and will liaise with these larger taxpayers and their advisers.

Revenue invests considerable resources in providing published guidance, regular published precedents, website information, and Revenue contact points through technical eBriefs/Tax Briefings etc. The Institute will continue to work closely with Revenue to provide input and feedback on the content and delivery of this important material.

Technology has been transformative in making tax compliance in Ireland easier and less costly for taxpayers as well as for Revenue. The Institute acknowledges the fact that by embracing technology Revenue will be able to reduce administration costs and provide more targeted interventions, but at what cost to taxpayer. Technology can never replace the need for personal interaction to assist certain taxpayers and to resolve complex matters and we would like to see the importance of continued human contact included as a key principle in any strategic goals governing the use of technology by Revenue.

Improving understanding of Revenue's operating model for compliance

Communication with stakeholders on developments in Revenue's structure for compliance interventions is essential. It is important that tax advisers are informed about the role and operation of new Revenue compliance structures in advance of their introduction, so they know what to expect from a Revenue intervention and can advise their clients appropriately. Recently, new "Second Tier Districts" have been brought into operation in the Revenue regions. However, now, several months after their introduction, there is still little information available to the profession on this key development.

The development of sector-specific guidance would provide useful certainty to taxpayers about the common errors identified by Revenue during their compliance interventions. This would assist businesses in avoiding similar pitfalls in future.

The *Code of Practice for Revenue Audit and other Compliance Interventions* (The Code) is the most appropriate channel for communicating developments in Revenue's operating model for compliance, as it underpins the engagement between advisers and Revenue on compliance matters. Both the content and the application of the Code should continue to be periodically reviewed at TALC to ensure it fully reflects up-to-date practices and is being applied consistently by Revenue across all Regions and districts.

A clear understanding of Revenue's operating structures and approach to tax compliance reduces uncertainty and disputes and enables matters to be resolved more efficiently. However, some disputes between taxpayers and Revenue are inevitable. Despite the fact that we have a new Tax Appeals regime, based on the day to day experiences of our Members a large number of appeals could remain to be heard even after the current settlement initiative is completed. As well as this timing issue, taking a case to appeal continues to be costly for both taxpayer and Revenue and alternative routes for resolving disputes could usefully be explored.

We would like to see Revenue facilitate and encourage a formal mediation-based approach to disputes. The UK has introduced an Alternative Dispute Resolution (ADR) mechanism and we would like to see Revenue adopt a similar mechanism. This mechanism could assist in the earlier closure of protracted cases where disputes have arisen, which would benefit all parties involved.

With regard to international tax disputes, the changing landscape will undoubtedly give rise to more disputes. As such, it will be important to continue to focus on resourcing the competent authority

function as a strategic priority.

2. Reducing compliance costs

Ireland maintained its position in 2016 as the easiest country in the EU in which to pay business taxes.¹ Keeping this focus on making tax compliance as easy and cost effective as possible plays an essential role in maintaining the competitiveness of Irish business and securing our attractiveness as a good place to do business for foreign direct investment. Revenue should continue to identify areas where the tax compliance process can be simplified to drive cost from the system to the benefit of both Revenue and the taxpayer. In doing so, Revenue enhances the competitiveness of Irish businesses and further highlights Ireland as an attractive location for FDI or start-ups who are deciding where to locate.

Tax compliance is particularly burdensome for smaller businesses and the introduction of additional compliance costs should be avoided as far as possible. Where such measures are being considered, a cost-benefit impact analysis should be conducted before any significant additional compliance obligations are introduced, for example, the further extension of the iXBRL filing requirement. If the result of that cost-benefit analysis is that new obligations are warranted, then resources should be set aside to provide appropriate supports to assist taxpayers such as training on the new requirements. Taxpayers should not be required to purchase new software packages to remain compliant.

Further steps to simplify unnecessarily burdensome elements of our existing tax administration regime could also be usefully taken, such as the priority move of Professional Services Withholding Tax (PSWT) to an online platform.

For multinational businesses, the implementation of BEPS and EU ATAD measures will result in new compliance burdens. Continuing early engagement between Revenue and the tax profession on the best way to achieve effective but efficient compliance and streamline reporting requirements will be very important.

To give impetus to a renewed focus on taxpayer compliance costs, we would like to see measurable targets for a reduction in compliance costs included in the new Statement of Strategy. A 25% target was achieved by Revenue for the period 2008 – 2012 and a specific target may be appropriate once again.

3. Continuing the partnership approach

Tax advisers are a key stakeholder in the tax administration regime. The work of our 5,000 members contributes strongly to Ireland's high tax compliance rates and a specific reference in the Revenue Statement of Strategy to the contribution made by the tax profession would be an important acknowledgement of this partnership approach.

¹ PWC/World Bank Paying Taxes Report - 2016

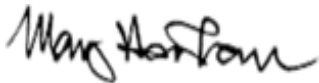
In addition, the partnership approach could be further fostered by:

- *The continued engagement with the tax profession on Revenue service for compliance.* There has been useful engagement between Revenue and the Institute on critical elements of Revenue's service over the last year. This has resulted in welcome consistency in the opening hours of Revenue's telephone services and an upgraded telephone platform as well as proposals to streamline the VAT Registration process to our mutual benefit. We welcome the opportunity to build on these positive developments over the coming months and years.
- *Early engagement on the implementation of BEPS and ATAD.* Collaboration at the TALC BEPS implementation sub-committee was pivotal in developing practical guidance for business on the implementation of the KDB and Country-by-Country Reporting. The TALC forum is a key cornerstone of engagement about tax administration issues including those that relate to changes in the new global tax rules. It is important that TALC continues to play this role.

Finally, we note from Revenue's Statement of Strategy 2015-2017 the important role that Revenue plays in providing advice to the Department of Finance on the development of tax policy. The Institute has made representations to Government about the importance of consultation on draft tax legislation prior to its publication in the Finance Bill and we believe that such stakeholder engagement would assist in the development of tax policy.

The Institute would be happy to engage on further details on any of the issues raised.

Yours truly



Mary Honohan

President

Irish Tax Institute