23 Revenue's Contractors Project

23.1 In the course of tax audit activity and other assurance checks in 2010 and 2011, Revenue identified a practice whereby individuals were offering their services as contractors to clients through the use of intermediaries – usually a limited company. The intermediary companies treated the individual contractor, who was usually a director of the company, as an employee to whom it paid a salary, on which tax was paid through the PAYE system. Features of many of the intermediary companies identified by Revenue included

- the contractors generally owned or controlled the intermediary companies
- the companies had small numbers of employees (frequently a single employee who was a sole owner/director)
- the company was providing the contractor's services to a single client – there did not appear to be a substantial business apart from this
- the intermediary companies paid high levels of (untaxed) expenses to the contractors when compared with the contractors' salaries.

23.2 Revenue concluded that some contractors were using the intermediary companies to allow them to operate as PAYE taxpayers while, in practice, they extracted a large part of the company's contract income as tax-free expenses. Arising from this, Revenue initiated a pilot targeted audit programme, the 'Brass Plate' project, in late 2012. The pilot project was carried out in Revenue's South-West region.

The 'Brass Plate' Pilot Project

23.3 The aim of the pilot project was to review tax practices within the contracting sector and to develop a methodology to identify and deal with cases which showed patterns of excessive expenses or incorrect tax treatment of expenses. By June 2013, the yield from the pilot project was €4.6 million (see Figure 23.1). 71% of the targeted cases had resulted in payment due to Revenue and fifteen cases were published in the tax defaulters' list in An Iris Oifigiúil.

Figure 23.1 Brass Plate project – summary of outcomes at June 2013

Completed audits [a]	185
Proportion of yielding cases	71%
Total yield	€4.6 million
Tax	*€2.8 million*
Interest	*€0.9 million*
Penalties	*€0.9 million*
Average yield per yielding case	€35,000

Source: Office of the Revenue Commissioners

Note: a The audits completed were in respect of 119 companies and 66 directors. Eight audits of director-employees which had not been completed at June 2013 were transferred to the subsequent contractors project.

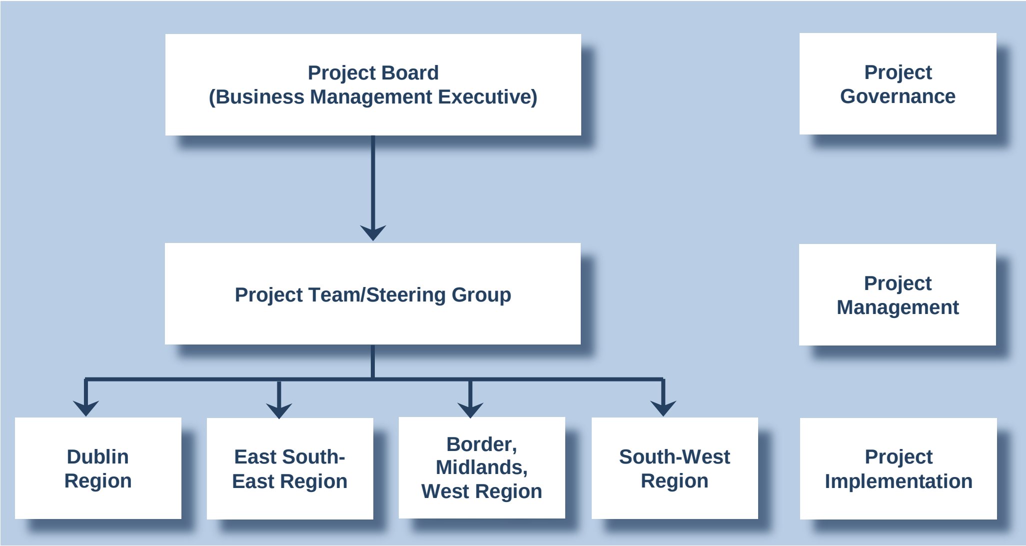
23.4 On review of the findings of the pilot programme and taking into account the identified high risk of non-compliance with tax requirements, Revenue expanded the programme into a national project, known as the contractors project.

23.5 This report reviews the operation of the contractors project.

Project Governance

23.6 Revenue adopted a formal project management structure for the operation and management of the contractors project (see Figure 23.2).

Figure 23.2 Project structure



Source: Office of the Revenue Commissioners

23.7 The project board comprised the members of Revenue's Business Management Executive.[1] Its main functions were to approve the project initiation document and any subsequent changes to the project, monitor progress and assess the final outcome. The project board agreed that

- A list of cases for audit were to be prepared by the planning division and circulated for review at local level within the four Revenue regions. Each region was to select 200 cases for audit.
- Specific resources were to be assigned to the cases in each region.
- The audit approach was to carry out desk-based audits spanning the four years 2008 to 2011.
- The approach to the project was to be standardised to ensure consistency in engagement with, and treatment of, taxpayers.

1 The Business Management Executive is a sub-group of Revenue's Management Advisory Committee.

Selection of Cases for Audit

23.8 In the normal course of business, the majority of cases selected for tax audits are determined by Revenue auditors reviewing the risk rating of the taxpayer using Revenue’s risk evaluation and analysis programme (REAP). However, a review of the pilot programme noted that of the original cases identified for review, very few had been ranked in the top 100,000 cases in REAP.

23.9 For the contractors project, Revenue’s planning division identified the population of cases from which each region would select cases for audit using the same criteria that had been applied in the pilot programme. These were

- ***Directors’ remuneration filter*** – over 400,000 corporation tax returns from companies for the years 2009, 2010 and 2011 were analysed to identify companies which met the following criteria[1]
  - turnover or sales within certain parameters
  - salaries/wages and staff expenses, for staff other than directors, lower than a certain amount. The purpose was to identify companies where the bulk of remuneration was likely to have been paid to directors
- ***NACE code filter*** – the 111,000 cases identified in the first filter were classified by their NACE code.[2] Revenue then identified cases with one of 13 NACE codes where, based on Revenue's experience in the pilot project and analysis of data on P35 forms, it considered the risk of non-compliance to be highest. Three categories accounted for two-thirds of the 23,000 cases identified at this stage
  - business and other management consultancy activities
  - engineering activities and related technical consultancy
  - computer consultancy activities
- ***Expenses filter*** – further analysis of the 23,000 cases identified at the second filter stage was carried out in order to identify cases with a high proportion of expenses. Cases were selected if they met any one of the following criteria
  - motor, travel and subsistence expenses were greater than a certain percentage of turnover or sales
  - 'other expenses' were greater than a certain percentage of turnover or sales
  - motor, travel and subsistence expenses combined with 'other expenses' were greater than a certain percentage of turnover or sales.

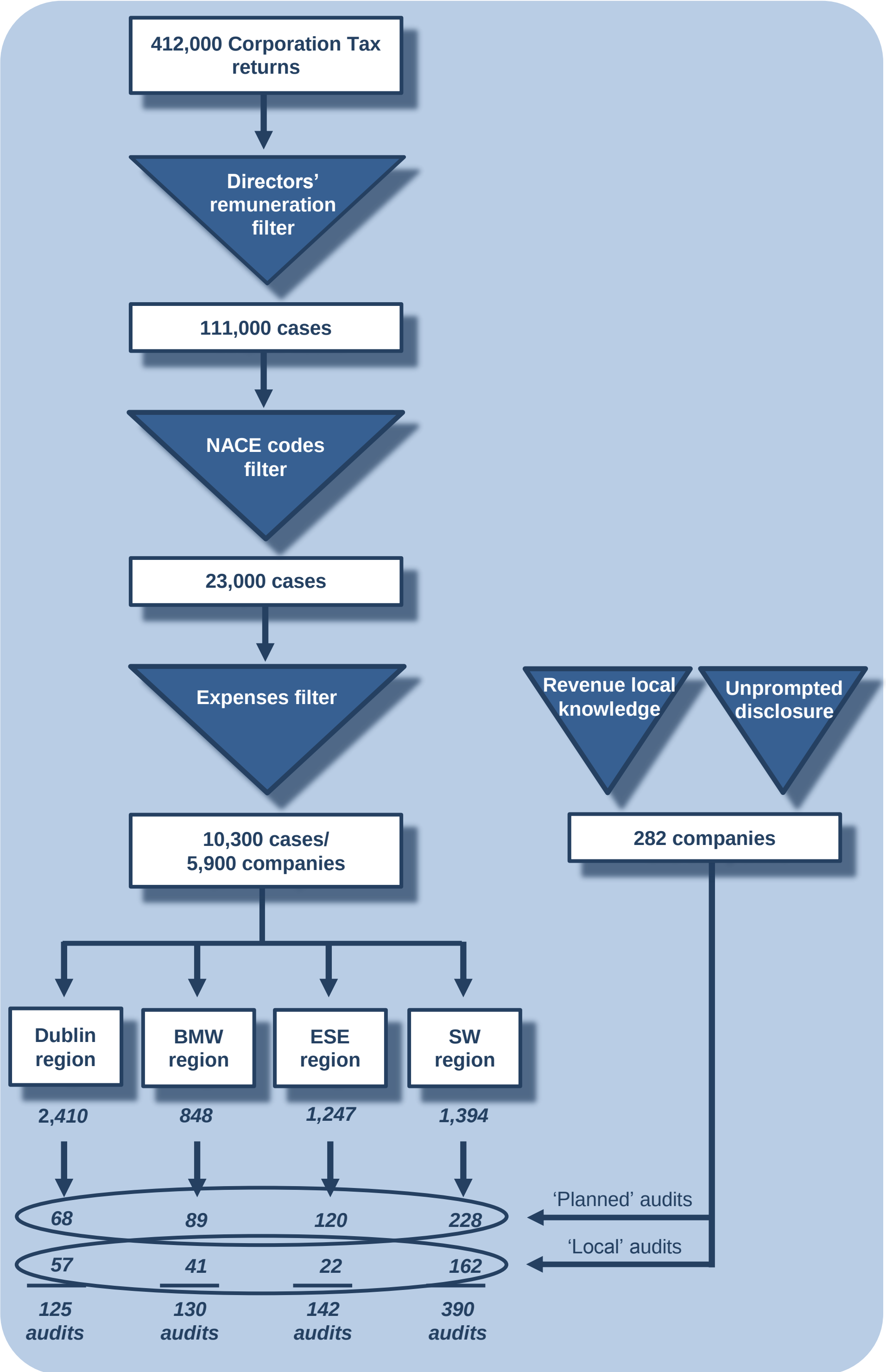
23.10 The resulting schedule of 10,300 cases was forwarded to the four regions, which were each asked to select 200 cases for audit from the schedule. The project board subsequently reduced this to 100 cases to be selected from the schedule drawn up by the planning division, and decided that the regions could supplement the list from the planning division with additional locally-selected cases.

23.11 The filtering/case selection process is summarised in Figure 23.3.

1 Companies were included for each year in which they met the criteria – a single company could be included up to three times.

2 The statistical classification of economic activities in the European Community (commonly referred to as NACE) is a standard European industry classification system. On Revenue's registration system, all taxpayer cases are assigned a single NACE code. This reflects the primary income source, even where the taxpayer engages in multiple trades or activities.

Figure 23.3 Contractors project – central identification of potential audit cases

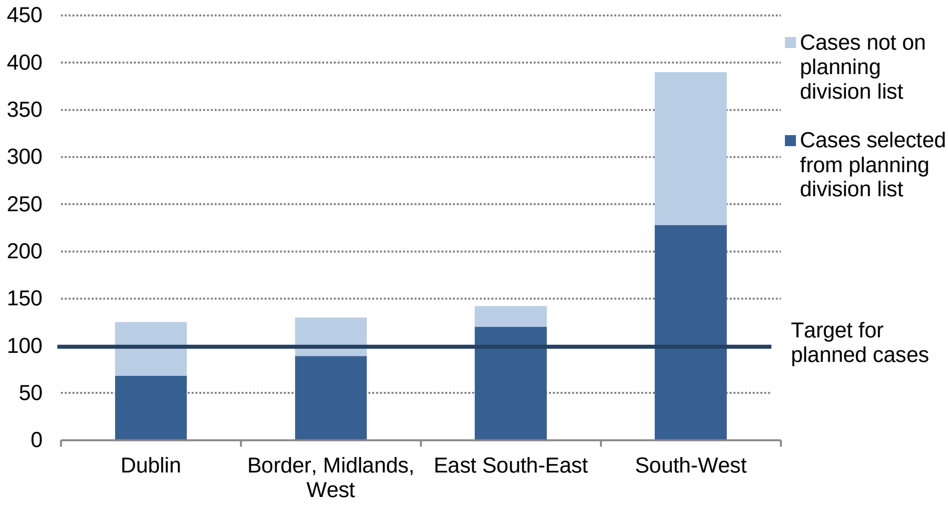


Source: Office of the Revenue Commissioners

Selection of Cases for Audit at Regional Level

23.12 Central guidelines were not issued to the regions about how to select cases for audit from the planning division list. Ultimately, audits were carried out in respect of 787 cases (1,369 separate audits), including some that had been carried forward from the pilot programme.[1] Around two-thirds of the cases (505) were selected from the companies identified by Revenue's planning division (see Figure 23.4). The balance of cases were selected at regional or district level using local knowledge or were reviewed following an unprompted qualifying disclosure by a taxpayer.

Figure 23.4 Contractors project – cases audited at regional level



Source: Office of the Revenue Commissioners

23.13 The project was carried out through desk audits performed by over 100 Revenue case workers. The South-West region, where the pilot programme had been carried out, carried out audits in respect of almost 400 cases, or just over 50% of all cases. Only two of the regions achieved the target of 100 cases from the planning division list. The East South-East region was the only one to create a centralised project team.

23.14 A review undertaken by Revenue during the last quarter of 2014 noted that, for audit selection purposes, the NACE codes provided by taxpayers at registration time prove to be too generic in some cases to ascertain accurately the nature of the business being carried out.[2]

23.15 In total, of the yielding audits that had been completed by December 2014, 90% were in respect of taxpayers registered under one of the 13 high risk NACE codes. In three-quarters of the yielding audit cases identified at regional level, the companies were registered under one of these 13 codes, but the companies had not been identified as potential audit cases by the filtering undertaken by the planning division.

1 Audits of 779 companies and 590 directors.

2 This examination found that the companies audited were registered under 37 different NACA codes – while the cases selected by the planning division were registered under the 13 'high-risk' codes, cases identified at regional level were registered under those codes and under an additional 24 NACE codes.

Project Outcome

23.16 Issues identified by Revenue in the course of the project included

- payments in respect of travel, subsistence and other expenses which were not related to business activity and on which no tax had been paid
- payments for travel from a contractor's home to their normal place of work on which no tax had been paid
- deductions claimed for pensions which were not actually made or were subsequently cancelled and the funds reimbursed
- salaries paid to family members of the contractor where there was no evidence that work had been carried out by the recipient of the salary, or where the salary paid to family members was excessive relative to the work actually undertaken
- several variants of the basic intermediary model existed – for example, where a number of individuals are employees of an intermediary company that in turn contracts for the provision of their services to the client company, or where a small number of individuals jointly form an 'umbrella' company.

23.17 By the end of December 2014, just over 80% of the 787 audit cases had been closed by Revenue. The total yield was €15.4 million, of which €14.3 million arose from company audits and the balance from audits of directors. The proportion of yielding cases was high – at 79% – and the average yield, per yielding case, was just under €30,500 (see Figure 23.5).

Figure 23.5 Contractors project – closed cases, December 2014

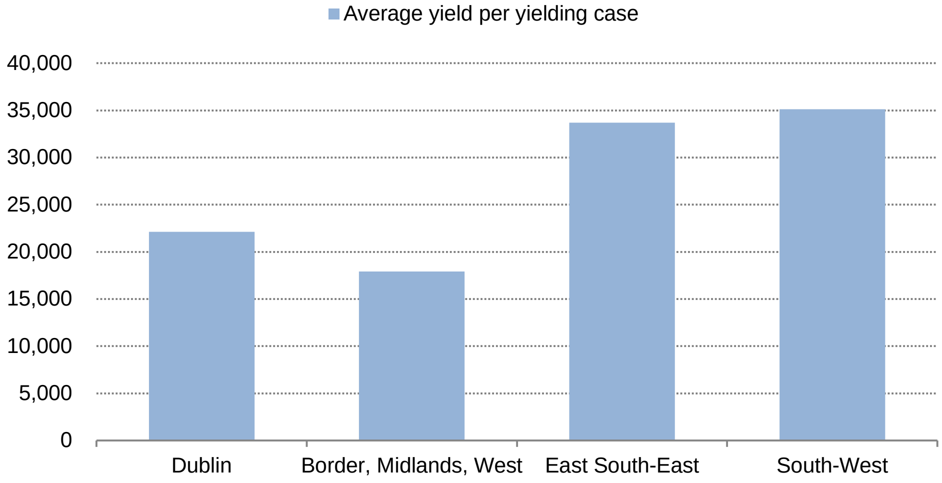
	Planned cases	Local cases	Total
Total cases	505	282	787
Closed cases (at Dec 2014)	396	241	637
Closed yielding cases	308	196	504
Proportion of yielding cases	78%	81%	79%
Total yield	€9.6 million	€5.8 million	€15.4 million
Tax	*€6.1 million*	*€3.7 million*	*€9.8 million*
Interest	*€1.7 million*	*€1.1 million*	*€2.8 million*
Penalties	*€1.8 million*	*€1.0 million*	*€2.8 million*
Average yield per yielding case	**€31,200**	**€29,600**	**€30,450**

Source: Office of the Revenue Commissioners

23.18 One NACE code (engineering activities and related technical consultancy) accounted for two-thirds of the cases and 69% of the total yield. The yield for each NACE code and the number of cases is set out in Annex B.

23.19 There was a significant variation in the average yields across the regions. The average yield was highest in the South-West region and, overall, 60% of the total yield came from cases there. Average yields in the Dublin region were over a third lower than the yields in the South-West region (see Figure 23.6).

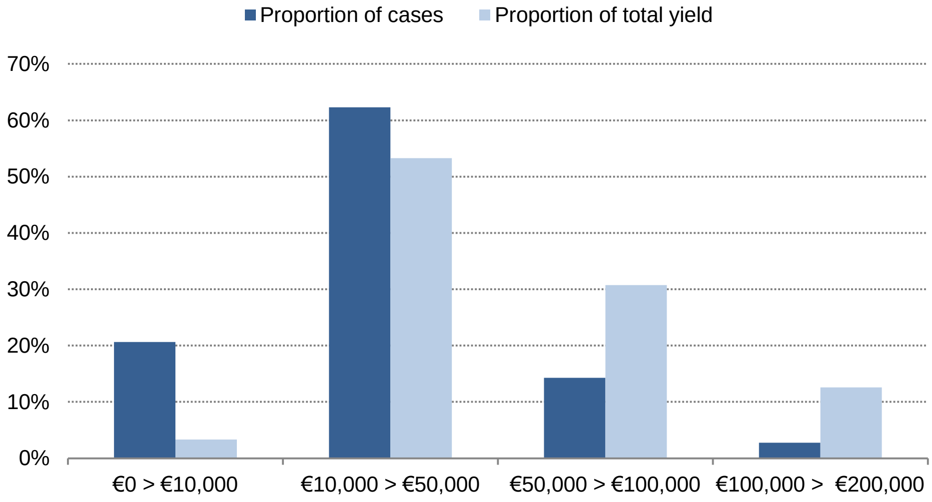
Figure 23.6 Contractors project – closed cases by region, December 2014



Source: Office of the Revenue Commissioners

23.20 The yield in just over 20% of cases was less than €10,000, averaging €5,000 per case. 14 cases (3%) yielded between €100,000 and €200,000 each, of which 12 were audits in the South-West region (see Figure 23.7).

Figure 23.7 Contractors project – proportions of cases and total yield for selected yield ranges



Source: Office of the Revenue Commissioners

Comparison with Random Audit Programme

23.21 Revenue operates a random audit programme with around 400 audits of randomly selected individual taxpayers and businesses commenced annually. The results of the random audit programme for the four years 2008 to 2011 (the same years as those covered by the contractors project) showed that[1]

- additional taxes were levied as a result of random audits in about one-third of cases audited
- the average yield per yielding audit over the period was around €17,000. The yield fell consistently between 2008 and 2011 from €22,000 to just over €11,000.

Engagement with Tax Practitioners and Representative Groups

23.22 Arising from its experience in the pilot programme, Revenue identified a number of risks at the planning stage of the contractors project, including the risk that queries and demands for clarifications might lead to delays.

23.23 In order to address these, Revenue engaged with tax practitioners and contractors representative groups mainly thorough issuing two tax briefings and correspondence with the Irish Taxation Institute, to clarify what the contractors project entailed and, inter alia, the circumstances in which expenses of travel and subsistence may be reimbursed free of tax.[2] Among the issues addressed in the briefings were

- Because of the nature of the tax underdeclarations found in the programme, Revenue took the view that it was required to treat them as stemming from deliberate behaviour, with the appropriate level of penalties. Penalties could be mitigated if taxpayers made qualifying disclosures. In order to facilitate disclosure, Revenue would provide assistance, where required, to those experiencing difficulty. Revenue also asked tax agents to encourage relevant clients to make unprompted qualifying disclosures.
- In arriving at audit outcomes, Revenue would not seek to ‘gross up’ expenses in calculating the tax underpayment, on the understanding that there would be strict compliance with the laws in future.

Qualifying Disclosures

23.24 Disclosures were made in 59% of yielding cases, of which 77% were prompted disclosures (see Figure 23.8).

1 Chapter 25, Report on the Accounts of the Public Service 2012.

2 The tax briefings were issued in July and November 2013.

Figure 23.8 Contractors project – yield on closed cases, December 2014

	Qualifying disclosure – unprompted	Qualifying disclosure – prompted	No disclosure	Total
Closed yielding cases	70	228	206	504
Total yield	€2.1 million	€8.2 million	€5.1 million	€15.4 million
Tax	*€1.5 million*	*€5.1 million*	*€3.2 million*	*€9.8 million*
Interest	*€0.4 million*	*€1.4 million*	*€1.0 million*	*€2.8 million*
Penalties	*€0.2 million (13% of tax due)*	*€1.7 million (33% of tax due)*	*€0.9 million (28% of tax due)*	*€2.8 million (28% of tax due)*
Average yield per yielding case	**30,000**	**36,000**	**24,800**	
Interest and penalties as a proportion of the total yield	29%	38%	37%	36%
Number of yielding cases to which penalties were applied	70 (100%)	211 (93%)	179 (87%)	460 (91%)

Source: Office of the Revenue Commissioners

23.25 In a submission to the project board in October 2014, the project team noted that the offer to assist in making disclosures had turned out, in hindsight, to have been a mistake. The team found that a number of agents submitted grossly inadequate or incomplete disclosures and slowly increased the amounts in the disclosures in the expectation of securing the lowest settlement. The submission noted that it was not uncommon for the final settlement to be three or four times the amount of the original disclosure, even where that disclosure had been prepared by experienced agents.

23.26 During the project, taxpayers were represented by over 435 agents, of which five agents represented 30% of the yielding cases and the total yield. Following discussions with some agents, and review of the files of around 3,000 contractors, Revenue opened an additional 235 audit cases. In late 2014, Revenue noted that the initial results of these audits included an audit yield of around €250,000 from the first 27 cases (around €9,300 per case) where disclosures had been lodged with Revenue.

Interest and Penalties

23.27 Interest and penalties amounted to 36% of the total yield in the contractors project. This compares with averages of between 20% and 25% for all yielding audits (around 5,800) conducted by the regions in 2012.[1] Overall, penalties were applied in over 90% of the contractor project cases.

1 Chapter 27, Report on the Accounts of the Public Service 2012.

Grossing Up of Expenses

23.28 Employers are required to make appropriate tax deductions in relation to payments made to employees. However, Revenue may agree that the tax due may be paid either by the employee or by the employer.

- Where the employee pays the tax, amounts due in respect of income tax, Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) are calculated on the basis of the amount received by the employee – no grossing up takes place.
- Where the payment was made on a net pay basis and the employer pays the liability on the employee's behalf, the amounts due should be determined by reference to the 'grossed–up' value of the benefit, that is, the notional amount which, if income tax, USC and PRSI were deducted from it, would leave the employee with a net amount which would be equal to the payment they actually received. The grossed–up amount is determined by reference to each individual employee's marginal rate of tax, USC and PRSI rates. The amount to be paid by the employer is the difference between the grossed–up amount and the payment to the employee.

Example: Impact of Grossing Up

The impact of grossing up on the tax due for an employee in respect of payment for expenses on which tax was incorrectly not deducted is set out below. It is assumed the employee is liable for income tax at 41%, PRSI at 4% and USC at 7% (totalling 52%).

	Tax, USC and PRSI applied	
	No grossing up	**After grossing up**
Disallowance of expenses payment to employee	€1,000	€1,000
Total income tax, USC and PRSI rate	52%	52%
Taxable amount	€1,000	€2,080 (€1,000/0.48)
Income tax, USC and PRSI due	€520	€1,080

Source: Analysis by the Office of Comptroller and Auditor General

23.29 Revenue did not gross up expenses for the contractors project audits. In a tax briefing in 2013, Revenue stated that it had adopted this approach on the understanding that the parties concerned would comply strictly with the law in the future. If Revenue had grossed up the expenses, the project would have provided substantial additional yield.

23.30 Revenue stated that

- A legal basis for grossing up exists in situations where there is evidence that the payments made to employees are, by agreement between the employer and employee, on a 'net pay' basis or where the employer agrees to meet the grossed–up liability.
- In the cases selected for the contractors project, payment was received by a contractor's company on foot of an invoice for work done. The total received was then divided between expenses and salary, with PAYE, PRSI and USC deducted from the salary portion. In circumstances where the expenses were overstated or incorrectly claimed, the amount of invalid expenses is the amount from which tax, PRSI and USC should have been withheld. Grossing up the full expenses to a higher amount is not appropriate in those circumstances.
- There may have been cases where grossing up could have been considered but the experience of the early cases indicated that the number of these would be very small. Revenue therefore decided that the advantages of minimising technical negotiation and simplifying the process as much as possible outweighed any potential gain from seeking to re-gross expenses.

Project Review

23.31 A review presented to the project board in October 2014 noted that, overall, the contractor project had been successful and that it had shown that abuse of the tax system was taking place in the contracting sector and that concerted action had been required to address taxpayer behaviour and ensure greater compliance in the future. The review also made a number of recommendations including that

- the project as configured should be wound down with the orderly closure of the remaining cases
- a review should be carried out of 2014 corporation tax filings in the contracting sector to assess the extent to which filing behaviour had changed
- for future national projects, a more thorough pre-launch scoping of the project should be carried out to identify and anticipate issues which could hinder implementation
- each region would be encouraged to continue to audit similar cases using lessons learned from the project, until such time as it becomes clear that the original problems giving rise to the project have been largely mitigated
- the recognition of region/district discretion should continue for future projects, but a much tighter measurement regime would be needed to identify local and regional variations
- the role of Revenue's Business Management Executive as project board has great value, but consideration should be given to a subordinate senior management group comprising a principal officer from each region involved, chaired by a project owner to decide operational issues.

23.32 The review also noted that the use of a centralised project team in the East South-East region had led to greater consistency in the approach when compared with other regions.

Conclusions and Recommendations

23.33 Revenue's targeted audit programme of intermediary contractor companies identified yields totalling €20 million inclusive of tax due, interest and related penalties.

23.34 The audits carried out under the initiative were targeted effectively, based on two strategies – planned cases using automated filtering, and selection of cases using the 'local knowledge' of Revenue officials. Overall, 79% of closed audit cases resulted in financial yield. Both case selection strategies had similar rates – 76% for the planned cases, and 85% for cases selected using local knowledge. The average yield was similar for both selection methods, at around €30,000 per yielding case.

23.35 The level of underpayment of tax in the audited intermediary companies indicates that non-compliance may have been a deliberate feature of some such structures. Revenue is satisfied that, having acted in a significant and visible manner in the course of the project, undesirable practices are being addressed, and that there is considerably more clarity around the treatment of expenses in contractor type cases. The lessons learned in the course of the project have been disseminated to Revenue districts, which are expected to review and audit further individual cases as appropriate.

23.36 Less than one in ten of the companies identified through automated filtering were subject to audit. Even in those cases, the audit focus was on the period 2008 to 2011. It is unclear when public awareness of Revenue's approach might have resulted in a change in behaviour among tax advisors and taxpayers, and higher compliance.

23.37 In notifying the four regions about the filtered cases, Revenue set a target level of 100 audit cases per region. The implied national target of 400 cases was achieved, but the practice at regional level varied, ranging from 68 cases audited in the Dublin region to 228 cases audited in the South-West region. Overall, companies on the planning division list were six times more likely to have been selected for audit in the South-West region than in Dublin.

23.38 Because Revenue did not provide guidance on how filtered cases were to be selected for audit, the selection methods varied across regions. This results in difficulties in interpreting the results. Random selection of cases for audit would mean that the yield results identified would be likely to be representative of the tax gap for the cases in each region and could be extrapolated to give an estimate of the tax gap nationally. Using other methods of selection means that the potential yield from the audited cases may not be representative.

23.39 Irrespective of the method of selection of such cases, a concern remains that there may be significant tax still unpaid in respect of directors' expenses in intermediary company structures for the period 2008 to 2011, and possibly for later periods until the results of the contractors project audits became publicised among taxpayers and agents.

23.40 The concentration of audits on a small number of NACE codes appears to have been effective. However, the filters used to reduce the number of potential audit cases to just under 6,000 companies resulted in exclusion from the audit frame of a significant number of non-compliant cases. The high incidence of the same NACE codes in the audit cases selected using local knowledge confirms this.

Non-standard Features of the Audits

23.41 Revenue decided to apply two features in carrying out its contractors project that are not standard in its general approach to audit.

- Revenue deviated from its normal practice by offering to assist taxpayers in making qualifying disclosures. However, this did not enhance the process – Revenue found that it led to a number of agents submitting grossly incomplete disclosures and that it was not uncommon for the final settlement to be three or four times the amount of the original disclosure, often after protracted negotiations.
- Revenue did not 'gross up' the amounts that had been paid tax free but on which Revenue found that tax was due. It did this on the understanding that there would be strict compliance with the tax laws in the future. It is not clear that this practice took account of the fact that the contractors concerned were often both employers and directors/owners of the companies.

Views of the Accounting Officer

23.42 Revenue has concluded that the offer to assist taxpayers in making qualifying disclosures did not enhance the process and does not intend to repeat that approach.

23.43 Revenue considers that there are significant issues to be addressed in relation to grossing up and sanctions to be applied when non-operation of PAYE is discovered in the course of Revenue audit. The contractors project has been a catalyst in drawing attention to these issues.

23.44 Revenue is currently reviewing the appropriate treatment of the non-operation of the PAYE system. The subject has been considered by Revenue's Management Advisory Committee and, depending on the outcome of the review, recommendations for legislative change may emerge. If proposals for legislative changes do emerge, Revenue will give careful consideration to ensuring that such legislation does not result in any perceived benefit to an employer who does not apply the law correctly.

23.45 Where, in future, Revenue comes across the repeat non-operation of PAYE on expenses in cases settled under the contractors project, Revenue will seek evidence of an 'after PAYE deductions' arrangement and grossing up will be pursued as part of the resultant settlement if such evidence exists. Revenue will also consider the level of penalties to be applied for repeat breaches of the rules.

Risk Assessment

23.46 Reimbursement of expenses, incurred necessarily in the performance of the duties of the employment or office, to employees without deduction of tax is a long standing administrative practice accepted by Revenue. Revenue recognises that the employer company is best positioned to ensure that the tax treatment of expenses is operating correctly and that the proper requisite records are being maintained. The practice streamlines the handling of expense claims, and alleviates the burden on employees of waiting up to a year to recoup expenses.

23.47 A distinction could be made in the permitted treatment of expenses reimbursement in the case of company directors who are also salaried employees. However, Revenue has pointed out that, in general, precisely defining the situations in which a director employee would be denied tax-free reimbursement would be difficult and could result in undue hardship for compliant director employees. Revenue's strategy is to address any non-compliance in this area through audit/review rather than remove the benefit of the practice from all director employees of intermediary companies.

23.48 At the commencement of the contractors project, there were existing REAP rules that identified the type of risk in the contractors project, but these had rated highly very few cases identified as yielding in the initial screening. Two new rules have been added in REAP (in September 2013 and in February 2015) to identify cases that fit the criteria for risk in relation to the contractors project. The formulation of these new rules was based on input from officers engaged on the contractors project and have identified additional cases with risk similar to the project cases.

Recommendation 23.1

In designing future audit programmes such as the contractors project, Revenue should specifically test the effectiveness of the rules in REAP and consider what changes might be required to enhance REAP arising from the results of the audits.

Accounting Officer's response

Agreed. One of the principles upon which the REAP system is based concerns the updating of REAP rules with feedback from successful audits and projects by Districts. The addition of further REAP rules arising from the National Contractors Project is an example of the value of such feedback. Revenue will continue to specifically test the effectiveness of REAP rules in reviewing future projects.

Taxpayer Behaviour

23.49 A key aim of Revenue compliance interventions is to encourage changes in taxpayer behaviour, where non-compliance is occurring. In the course of the contractors project, Revenue invited tax agents to encourage clients to make unprompted voluntary disclosures. Following discussions with some agents, and review of the files of around 3,000 contractors, Revenue opened an additional 235 audit cases. There remains a risk that not all owners of intermediary companies are aware of the issue around drawing payments from their companies in the form of tax-free expenses.

Recommendation 23.2

In order to ensure, to the extent possible, that owners of intermediary companies are fully aware of Revenue's approach to the payment of tax free expenses and of the level of non-compliance it found in the course of the contractors project, Revenue should consider notifying them directly of the outcome of the contractors project. The company owners could be requested to review their tax returns, paying particular attention to areas of risk that Revenue identified during the project, and to make voluntary disclosures where necessary.

Accounting Officer's response

Agreed. The policy of encouraging taxpayers to regularise tax and duty defaults features prominently in the code of practice for Revenue audit and other compliance interventions. Opportunities afforded range from self correction without penalty to the making of qualifying disclosures and the benefits attaching to same. Revenue will consider how best to make contractors aware of their obligations.

Future National Projects

23.50 Overall, the contractors project was well structured. There was a pilot project, an effective governance structure, planning to identify potential cases and a project review, towards the end of the project, to identify lessons learned from the project.

23.51 The post-project review by Revenue noted that, for future national projects, a more thorough pre-launch scoping of the project should be carried out to identify and anticipate issues which could hinder implementation. That review also noted that the use of a centralised project team in the East South-East region had led to greater consistency in the approach when compared with other regions.

Recommendation 23.3

There may be lessons arising from the contractors project that are relevant for future national projects. In order to ensure that such are transferred, Revenue should consider how the learning can be formally captured, for example in a procedures manual for project management in compliance interventions that are undertaken nationally.

Accounting Officer's response

Agreed. Revenue's Project Management Office, which was developed to support governance of IT projects played an important supporting role in the contractors project. The success of this involvement has resulted in setting up a Business Project Management Unit to provide procedural and governance support for national projects.

Annex A – Disclosures and Penalties

Following notification by Revenue of an audit, taxpayers may take steps to correct their tax returns by making a 'prompted disclosure' to Revenue. Where a prompted disclosure: is a disclosure of complete information relating to a tax liability; is made in writing; and is accompanied by payment in full of the tax or duty and any interest due on the late payment or an agreed phased payment arrangement that complies with Revenue's instalment arrangement procedures, it is considered to be a 'qualifying disclosure'. One of the effects of a valid qualifying disclosure is to reduce penalties that are applied for tax default, including avoidance of publication of settlement details.

An unprompted voluntary disclosure occurs where the taxpayer makes a disclosure before a letter notifying the taxpayer of an audit issues or, in the case of an investigation, prior to commencement of the investigation.

Penalties rates for defaults on or after 24 December 2008

Qualifying disclosure and taxpayers co-operation	Category of default	Prompted disclosure	Unprompted disclosure
All qualifying disclosures in this category	Careless behaviour without significant consequences	10%	3%
First qualifying disclosure in these categories	Careless behaviour with significant consequences	20%	5%
	Deliberate behaviour	50%	10%
Second qualifying disclosure in these categories	Careless behaviour with significant consequences	30%	20%
	Deliberate behaviour	75%	55%
Third or subsequent qualifying disclosure in these categories	Careless behaviour with significant consequences	40%	40%
	Deliberate behaviour	100%	100%
No qualifying disclosure	**Category of default**	**No co-operation**	**Co-operation only**
All defaults where there is no qualifying disclosure	Careless behaviour without significant consequences	20%	15%
	Careless behaviour with significant consequences	40%	30%
	Deliberate behaviour	100%	75%

Note: This table refers to defaults that occurred on or after 24/12/2008 (Finance No. 2 Ac 2008), where the taxpayer makes a qualifying disclosure and also to defaults where no qualifying disclosure is made. The tax geared penalty is a percentage of the underpaid tax.

Annex B – Contractors project, Yield by NACE category

	Total yield	Yield – cases on planning division list	Yield – cases identified at regional level	Total cases	% of cases	% of yield
NACE categories used to filter returns	**€000**	**€000**	**€000**			
7112 – Engineering activities and related technical consultancy	10,593	6,991	3,602	328	65.1%	69.0%
7022 – Business and other management consultancy activities	1,098	933	175	50	9.9%	7.2%
6202 – Computer consultancy activities	874	608	266	29	5.8%	5.7%
7490 – Other professional, scientific and technical activities	441	337	104	11	2.2%	2.9%
6201 – Computer programming activities	331	278	53	12	2.4%	2.2%
6209 – Other information technology and computer service activities	173	123	50	5	1.0%	1.1%
7120 – Technical testing and analysis	152	146	6	8	1.6%	1.0%
5829 – Other software publishing	96	83	13	4	0.8%	0.6%
6619 – Other activities auxiliary to financial services, except insurance and pension funding	92	92	–	1	0.2%	0.6%
7021 – Public relations and communication activities	5	5	–	2	0.4%	–
7311 – Advertising agencies	3	3	–	1	0.2%	–
7320 – Market research and public opinion polling	2	2	–	1	0.2%	–
7312 – Media representation	–	–	–	–	–	–
NACE categories identified at regional level						
2562 – Machining	211	n/a	211	6	1.2%	1.4%
9806 – Schedule E, director only	191	n/a	191	14	2.8%	1.2%
9803 – Case III only	145	n/a	145	1	0.2%	0.9%
7410 – Specialised design activities	121	n/a	121	4	0.8%	0.8%
7111 – Architectural activities	116	n/a	116	5	1.0%	0.8%
4322 – Plumbing, heat and air-conditioning installation	103	n/a	103	2	0.4%	0.7%
0150 – Mixed farming	86	n/a	86	1	0.2%	0.6%
4120 – Construction of residential and non-residential buildings	85	n/a	85	3	0.6%	0.6%
6820 – Renting and operating of own or leased real estate	70	n/a	70	5	1.0%	0.5%
0240 – Support services to forestry	67	n/a	67	1	0.2%	0.4%

	Total yield	Yield – cases on planning division list	Yield – cases identified at regional level	Total cases	% of cases	% of yield
9412 – Activities of professional membership organisations	57	n/a	57	1	0.2%	0.4%
7219 – Other research and experimental development on natural sciences and engineering	53	n/a	53	1	0.2%	0.3%
6920 – Accounting, bookkeeping and auditing activities; tax consultancy	36	n/a	36	2	0.4%	0.2%
6831 – Real estate agencies	34	n/a	34	1	0.2%	0.2%
5610 – Restaurants and mobile food service activities	30	n/a	30	1	0.2%	0.2%
6832 – Real estate agencies	28	n/a	28	1	0.2%	0.2%
2013 – Manufacture of other inorganic basic chemicals	26	n/a	26	1	0.2%	0.2%
4741 – Retail sale of computers, peripheral units and software in specialised stores	22	n/a	22	1	0.2%	0.1%
2110 – Manufacture of basic pharmaceutical products	17	n/a	17	1	0.2%	0.1%
	15,358	**9,601**	**5,767**	**504**		

Source: Office of the Comptroller and Auditor General