



An Roinn Airgeadais
Department of Finance

Sráid Mhuirfean Uacht, Upper Merrion Street, Telephone: 353-1-676 7571
Baile Átha Cliath 2, Dublin 2, Facsimile: 353-1-678 9936
Éire. Ireland. LoCall: 1890 66 10 10
VPN: 8109
<http://www.irlgov.ie/finance>

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Circular 24/06

**Minute of the Minister for Finance on the Third Interim Report of the Public
Accounts Committee for 2003 - Office of the Revenue Commissioners; National
Treasury Management Agency; and National Pensions Reserve Fund**

A Chara

I am directed by the Minister for Finance to enclose for your information and guidance a copy of the Minute of the Minister for Finance on the Third Interim Report of the Public Accounts Committee for 2003 - Office of the Revenue Commissioners; National Treasury Management Agency; and National Pensions Reserve Fund.

Mise le meas

Noel T. O'Gorman
Second Secretary General

To: All Accounting Officers

Minute of the Minister for Finance
on the Third Interim Report of the Public Accounts Committee for 2003 - Office
of the Revenue Commissioners; National Treasury Management Agency; and
National Pensions Reserve Fund

The Minister for Finance has examined the Committee's Report and has taken account of its findings. In relation to its recommendations, his response is as follows:

**1. Office of the Revenue Commissioners – Vote 9; and
Chapters 3.1 to 3.5**

- **Purely random audits should be included in the Revenue audit programme. The Committee welcomes the decision to do this with effect from 2004.**

The Minister is advised by the Revenue Commissioners that the Tax Compliance Testing Programme (Random Audits) was rolled out in November 2004 and was used as a random case selection tool in 2005 to test compliance on a number of fronts. It tests payment compliance, filing compliance and reporting compliance. Some 400 cases were allocated to the various regions and to Large Cases Division. Most of these cases are completed or well advanced. The 2006 Tax Compliance Testing programme takes account of emerging analysis of the 2005 results. It is on a similar scale, with about 400 planned random compliance tests planned for 2006.

- **The Department of Finance and Revenue should put in place a mechanism for evaluating the effectiveness of the changes, made in the Finance Act 2005, that support the pursuit of those aiding and abetting tax evasion.**

The provisions in the Finance Act 2005 made such actions criminal and, for constitutional reasons, could not be made retrospective. These provisions, therefore, can only be relied upon in respect of offences which occurred on or after the date of enactment. No serious cases of this type have emerged for investigation to date.

However, the Minister is assured by the Revenue Commissioners that a possible infringement of these provisions is now one of the additional criteria against which referred cases are evaluated by the Admissions Committee of Revenue's Investigations & Prosecutions Division (IPD) when they are selecting serious cases for detailed investigation with a view to prosecution.

In addition, individual investigation officials in both IPD and Revenue regions have been alerted to exercise vigilance when monitoring all serious investigations with the objective of identifying any case where such aiding and abetting is a clear component of the case.

The Minister is assured by the Revenue Commissioners that when such cases are identified, they will be prosecuted with full vigour where a reasonable legal case can be supported, and if successful will receive the maximum possible publicity.

The Minister agrees that the effectiveness of the changes in Finance Act 2005 should be reviewed. This will be done when the Revenue Commissioners have had sufficient experience of the operation of the provisions on the basis described above.

- **All future tax incentive schemes should have mechanisms built in to enable a proper monitoring of both the tax foregone and the benefits to be gained. The Committee welcomes the current initiative to review tax incentive schemes.**
- **All proposed tax incentive schemes should be the subject of an ex-ante evaluation of the likely costs and benefits.**

The Minister announced in Budget 2005 a wide-ranging review of various tax incentive schemes, with a view to establishing the extent to which the various reliefs continued to be justified and to ensuring that a proper balance is maintained between the cost of the tax reliefs and the economic and social benefits that arise, having regard in particular to issues of equity.

The tax review exercise involved studies of particular tax schemes by external consultants and by officials of the Department of Finance and the Office of the Revenue Commissioners. The reviews were completed in time to inform the 2006 Budget and Finance Bill, and they were published in full on 6 February 2006.

The Minister notes that the basis on which any reliefs are introduced is a policy matter. However, he would draw the Committee's attention to the statement he made when introducing Budget 2006:

"The reviews also proposed that any new reliefs should be time-limited and should, where relevant, be subject to an assessment of costs and benefits prior to their introduction. They also proposed that recipients of these kinds of tax reliefs be required to supply full data to Revenue to assist in the costing and assessment of reliefs. I will be following this advice as far as appropriate."

- **Whilst the Committee acknowledges the progress that has been made in tackling tax evasion it is timely for Revenue to establish, from macroeconomic and other data, the scale of the shadow economy that currently exists.**

It is not possible to obtain reliable estimates of the shadow economy, given that by its nature it is made up of those who do not wish their activities to be observed or to be registered. There are general macro-economic methods for measuring the shadow economy but all are subject to significant reporting errors. In 2002 an OECD Handbook reviewed three main macro-model methods - *Monetary*, *Global Indicator* and *Latent Variable* - used to measure the shadow economy and it concluded that they "tend to produce spectacularly high measures since their shortcomings and ambiguities severely limit their utility for measurement of the underground economy." The unreliability of macro-model methods makes them unsuitable for use by tax administrations in arriving at estimates of the shadow economy. The Revenue Commissioners are in the process of examining approaches, both direct and indirect, to arrive at indicators of the extent of the tax gap. These approaches include the Tax Compliance Testing Programme (Random Audits), special enquiries to detect cases not previously on Revenue records and cases with unreturned sources of income, and

sectoral projects targeted specifically to identify evasion practices in specific sectors. The focus by Revenue on all aspects of the Construction Industry is an example of one such sectoral project. It is anticipated that the analysis of the results of this project will give a reliable insight into the extent of tax evasion in this sector.

2. Office of the Revenue Commissioners – Vote 9; and Chapters 3.6 to 3.8

- **Specific attention should be given to PAYE and PRSI debt, especially for business enterprises where the tax has been deducted from employees but not passed on.**

The PAYE/PRSI element of the overall Revenue tax debt reduced from €385m at March 2004 to €337m at March 2005 and to €302m at March 2006. This reduction was achieved at a time of record economic growth, record numbers in employment and record tax receipts.

The reduction in the debt is the result of increased payment timeliness brought about by Revenue taking early and effective action in respect of current outstanding liabilities. This approach has had the effect of preventing the accumulation of new debt. In addition, further progress has been made in eliminating old un-collectible debt and pursuing enforcement to finality against the remainder. The success of the debt reduction programme has contributed to the reduction in overall debt as a percentage of gross collection: this reduced from 3.1% at March 2004 to 2.5% at March 2005 and to 2.0% at March 2006, figures which compare very well internationally. The Minister is assured by Revenue that they have every intention of continuing their efforts in this area.

- **The threshold levels for publication of tax defaulters should be occasionally reviewed.**

Section 143(1)(a) Finance Act 2005 increased the threshold from €12,700 to €30,000 for settlements, the liability in respect of which arose after, or which relates to periods which commenced on or after, January 1st 2005.

Furthermore, Section 143(1)(b) Finance Act 2005 provides that the Minister for Finance shall, by Ministerial Order, increase the threshold in the year 2010 and in every fifth year thereafter by reference to the Consumer Price Index.

3. National Treasury Management Agency – 2003 Accounts; National Pension Reserve Fund – 2003 Accounts

- **The NTMA and NPRF should continue to increase their involvement and expertise in supporting major infrastructure investments in Ireland, consistent with a satisfactory rate of return in association with the level of risk inherent in these ventures.**

The Minister notes that over €6.7 billion in capital expenditure, including expenditure on major infrastructure investments, is expected to be spent under the Public Capital Programme 2006. To the extent that the overall level of public expenditure this year requires borrowing, the National Treasury Management Agency (NTMA) will carry out this borrowing as part of its ongoing operations.

However, the Minister would point out that the NTMA has no direct role in investing in, or supporting in any other way, major infrastructural projects. The Minister notes, however, that the National Development Finance Agency (NDFA) performs its functions through the NTMA, under the National Development Finance Agency Act 2002.

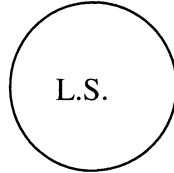
The role of the NDFA is to advise State authorities on the optimum means of financing public investment projects whether traditional or PPP, in order to achieve value for money. In addition to its advisory role, the NDFA is empowered to advance moneys and to enter into other financial arrangements in respect of projects approved by any State authority. To date, the NDFA has not exercised the option of raising finance itself. Following a Government Decision in July 2005, the role and functions of the NDFA have been expanded to include a specialised procurement delivery function. NDFA is to establish a Centre of Expertise within the Agency for the specialist procurement of PPP projects.

The National Pensions Reserve Fund (NPRF), which is controlled and managed by the National Pensions Reserve Fund Commission, has set aside €200m for investment in public private partnership (PPP) projects in Ireland since 2003 and will add to this should suitable opportunities arise. Under the terms of the National Pensions Reserve Fund Act 2000 which established the Fund, the Commission is independent of Government in the exercise of its functions, including the determination and implementation of the Fund's investment strategy in accordance with its statutory investment mandate. This mandate requires that the Fund operate on a commercial basis so as to secure the best possible financial return, subject to prudent risk management. The Minister for Finance has noted the recommendations of the Committee of Public Accounts. However, the Minister is not in a position to insist on the implementation of the recommendation in so far as the NPRF is concerned because the Commission is statutorily independent.

- **The level of fee paid by NTMA to An Post should be equitable to both parties.**

The issue of the fees paid by the National Treasury Management Agency to An Post in respect of the Government small savings products is a commercial issue between the two bodies. The Minister for Finance has no role in setting the level of those fees.

Given under the Official Seal of
the Minister for Finance this
20th day of July, 2006



David Doyle
Secretary General
Department of Finance