Irish Tax Institute

Leaders in Tax

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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Pay and File Consultation
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

To: taxpolicy@finance.gov.ie

Consultation on Pay and File Date

The Institute is responding to the Pay & File date Consultation Paper launched on 11 October 2013. In spite of the fact that our members are currently working very long hours to ensure their clients meet their Pay & File obligations, the Institute has received an enormous response from amongst our 5,000 strong membership, voicing their concern about the possible change in the Pay & File date.

The Appendix attached gives a flavor of the feedback and comments we have had from tax advisers across the country.

Executive Summary

- 69% of the Institute's members believe that their clients would not be able to provide information of appropriate quality in time for a June tax filing date.
- 68% of members would not be able to file as many income tax returns if the filing date was moved to September, because of the clash with the corporation tax filing date.
- Total income tax paid under Pay & File for the past three years has never exceeded 3% of total tax yield.
- Total income tax and USC paid under Pay & File in 2012 was less than 4% of total tax yield for that year.
- Even allowing for a +/- 10% margin of error on Pay & File income tax and USC payments (and this is extreme) this would only give rise to a +/- 0.4% margin of error on total tax yield (or 0.09% of GDP).

- The key concern is that tax yield would be underestimated thereby necessitating a supplementary Budget. In light of the trend in Pay & File yield figures over the past five years and current economic indicators, the one source of taxation that is least likely to decline in the coming three years is that of Pay & File.
- Time pressures arising from an advanced Pay & File date will undoubtedly result in increased inaccuracies in tax returns filed. This will lead to revisions being required after the filing date, creating administrative cost for taxpayers and Revenue and compromising the certainty of the Exchequer returns.
- In light of the above the Institute believes that any change to the Pay & File regime at this time would place a high level of strain on tax compliance levels, the small business community, the self-employed and the tax profession without justifiable reason.

What is driving the changes that are being proposed?

The Consultation Paper implies that some form of change is required to the existing Pay & File date *"…in order to provide increased certainty around the annual tax take…. as a result of the move to an earlier Budget Day"*.

It is clear that the European "Two- Pack" Regulations require Ireland to bring forward the Budget date so as to be able to present a **draft** Budget to the European Commission by 15 October. However, for the reasons set out below, the Institute does not believe that a change to the Pay & File date at this time would actually provide the increased certainty that is being sought in light of an earlier draft Budget.

Our Pay & File regime requires self-assessed taxpayers to make a "preliminary tax" payment for a calendar tax year before the year is complete e.g. for the calendar year 2013, taxpayers must make a preliminary tax payment for the full year by 31 October 2013 or 14 November 2013 (for ROS users). Most taxpayers choose to base this payment on 100% of the previous year's tax liability, which means they can only calculate their preliminary tax payment once they have finalised last year's return. 2 key problems arise in this scenario:

1. Rushing to try and complete tax returns earlier in the year is likely to be fraught with difficulty due to the unavailability of information and other tax deadlines (see below), which will lead to fewer and more inaccurate returns being filed; and
2. Taxpayers will not have the funds to pay preliminary tax when they are only halfway through a tax year (as some of the proposals in the paper suggest).

Therefore, advancing the Pay & File date may provide earlier information and even earlier tax yield for the Exchequer from the self assessed community. However, if the amounts are less accurate because of the difficulty completing returns earlier and businesses cannot afford to pay, then the Exchequer position is potentially open to even more uncertainty than exists at the moment.

How material is the existing Exchequer uncertainty

It has been 25 years since an income tax self-assessment regime was introduced in Ireland and tax compliance is now at its highest levels ever. This achievement has been due in no small part to the work of Chartered Tax Advisers who have assisted taxpayers in complying with their tax obligations.

In the most recent Revenue Annual Report (2012), these high tax compliance levels are recognised by the Revenue Board:

"The level of voluntary compliance is a valid index of the effectiveness of a tax administration. …already high compliance levels have improved since 2008, despite the on-going financial and cash-flow difficulties experienced by many taxpayers".

98% of preliminary income tax from self-assessed taxpayers was paid when due in 2012 and this was the joint highest level of timely compliance across all of the tax heads, matched only by the corporation tax head in 2012, and consistently out-performing all other tax heads for the past number of years.

These compliance rates have been hard won over a long period of time and fundamental changes should only be considered if the tax at risk is a material figure.

Below is an analysis of the income tax paid by the self-assessed sector from the years 2010 to 2012, as measured against the total tax yield in those years.

Year	**Income tax yield from self-assessed (excluding USC)** **€**	**Total tax yield** **€**	**Percentage of total yield represented by self-assessed income tax**
2012	1.019bn	36.6bn	2.8%
2011	0.948bn	34.2bn	2.7%
2010	0.963bn	31.9bn	3%

Note to Table:

The Universal Social Charge (USC) yield from the self assessed community is not published in the Revenue Annual Report or elsewhere. However, the Institute has confirmed the USC information for 2012.

Total USC of €423.4m was collected in 2012 from the self assessed sector which, when added to the €1,019m income tax figure, gives a total yield of €1,442m (income tax + USC) from the self-assessed sector. The contribution in total income tax **and** USC yield from the self assessed sector is therefore **3.9%** of the total tax yield accounted for in 2012.

The Table clearly illustrates that the total income tax from this group of taxpayers has consistently accounted for a very small proportion of the total tax yield in this period – only between 2% - 3% (this figure increasing to 3.9% in 2012 when the USC amounts are taken into account).

Even a high margin of error (say +/-10%), would result in under/overstatements of only 0.2%/0.3% of the total tax yield and advances in Exchequer forecasting suggest that such margins of error are now very unlikely to occur. In fact, the Comptroller and Auditor General recently commented on the accuracy of income tax forecasting in his most recent report:

"The accuracy of forecasting receipts from Income Tax, which is the highest yielding tax has improved steadily since 2008".[1]

The most recent Exchequer Returns for October 2013 also show tax receipts at the end of October are exactly on target overall and, in particular, the projections for income tax are highly accurate. Indeed, income tax forecasting over the last 3 years has achieved continually improving and highly accurate results.

Year	**Forecast income tax receipts €m**	**Actual income tax receipts €m**	**Difference**
2012 (incl USC)	15,300	15,176	(0.8%)
2011 (incl USC)	14,125	13,798	(2.3%)
2010	11,530	11,276	(2.2%)

Source Exchequer Statements 2010 to 2012

Based on the above data, it is the Institute's view that the tax yield from the self-assessed community is currently capable of being forecast to a very high degree of certainty and any deviations that might arise within normal ranges will contribute minimal risk to overall Exchequer returns. It is against this backdrop of low downside risk that we need to consider the impact of introducing fundamental change to a Pay & File regime that is working very well to deliver high compliance levels.

[1] Report of the Comptroller and Auditor General 2012

So what could happen if Pay & File changes are made?

The Institute has surveyed and spoken to many hundreds of our members to gather their feedback on a possible change to the Pay & File date. Their concerns are summarized below.

1. The quality of tax returns filed would be affected

a) Timely supporting information would be difficult to obtain

Almost 70% of members surveyed told us that their clients would not be able to provide information of appropriate quality to prepare a June income tax filing. Information essential to preparing returns is not available early in the tax year, for example, bank and other investment statements, P60s are often delayed etc. A September filing date would also be difficult because the months of June **-** August are peak times for holidays and for the farming and tourist/service sector. Members are unlikely to obtain full and accurate return information from clients over this period. Practices would also have to deal with staffing issues during the period May – September as staff may be on exam leave, study leave, annual leave etc. Given the skill level required to complete tax returns correctly, it would not be possible to engage temporary staff during the filing period to meet the demands.

In the absence of complete information there is a high risk that tax returns will contain estimated or incorrect figures and so would understate or overstate the tax due.

b) The clash with corporation tax filing

Two thirds of members surveyed told us that they would not be able to file the same number of income tax returns in September as they currently file, due to the September corporation tax deadline. September is particularly busy for the tax profession as the majority of Irish companies have a 31 December year end, and their returns therefore fall due in the following September.

These factors could ultimately lead to an increase in errors in tax returns and an increase in the number of unrepresented taxpayers filing their own tax returns. For self assessed individuals with complex business and personal arrangements, this would be far from ideal.

2. There would be a significant cash-flow impact for business

Over 90% of respondents to our survey stated that taxpayers would suffer a significant cash-flow impact if the tax payment date was moved to June. 68% said their clients would be impacted if the date was moved to September. Furthermore, 63% considered that an earlier payment date could result in reduced business activity and businesses ceasing to trade.

Small businesses continue to struggle in the current environment and access to bank credit is very limited. Businesses carefully plan ahead at the moment to ensure they have sufficient funds to pay their tax liability in November. It would be very difficult to ask businesses to pay 90% of their tax liability for the full year any earlier than the current October/November dates. This position is fully endorsed by the Small Firms Association in their comments on the matter:

"For every week the payment date is brought forward, there would be a funding cost of at least €1m. Bringing in earlier tax payment dates will destroy jobs and damage prospects for recovery in the domestic sector"

What is different between the proposed changes and previous changes?

Chartered Tax Advisers have supported a number of major developments to the system over the years.

1. The move in 1990 from a "preceding year" to a "current year" basis of assessment.
2. The change to the calendar tax year in 2001 and the introduction of the October filing date. Even when this change was made to the filing date, the 10 month filing interval was preserved.
3. The wide-scale changeover to filing through Revenue's on-line service (ROS) as the main resource for filing returns.

The tax profession has dealt with all of these major changes and worked diligently with taxpayers to keep standards of compliance high.

In summary, the Institute believes that the changes proposed in the Consultation Paper could risk damaging a Pay & File regime that is very efficient in delivering accurate returns and high tax compliance rates. This would be done to address a perceived risk of uncertainty which is untested, may not even arise and even if it does arise is not a material figure in terms of overall tax yield.

In light of the immaterial impact that the Pay & File date has on budgeted Exchequer figures we would ask that the status quo remain in place. However we recognise that it may be appropriate to review this position at intervals (of say 3 years) to ensure that any adjustments remain within these immaterial limits.

Should you wish to discuss the matters above further please do not hesitate to contact us.

Yours sincerely

Helen O' Sullivan
President

Appendix

Sample Feedback from Chartered Tax Advisers (CTAs)

CTAs in Dublin

“As I write on the last day of October, our office would crudely say one third of our clients are filed, one third are in hand and one third have yet to send any data in. I reckon that my one third who have yet to send me any data, are sticking their heads in the sand as they know that they can't pay! This year I am dealing with part payment of the taxes in much higher numbers than before.”

“I am a sole practitioner with no accounting or tax staff. At present 90% of my work has to be done between the months of say March and October. If changed to September I would be unable to have all accounts completed on time. March to October also includes the holiday period. If it was June I would not be able to get over 50 % of the returns submitted.”

“In 2014 iXBRL becomes mandatory, the new Companies Bill will be enacted and FRS102 also has to be dealt with. This is a burden small practices will be unable to cope with.”

“..Staff are under enormous pressure to meet the 31 October/mid November deadline and we see that a move to mid September as being unworkable as staff will not, in addition to current pressures, be prepared to forfeit summer holidays to file in September”.

“A large number of tax payers would be negatively affected for a small amount of tax relative to the annual tax take.”

“..the goodwill of the profession which has kept the self assessment regime going for the last 25 years would be severally damaged by this action.”

“If it does not work for advisers it does not work for Revenue”.

“Personally I think June/September filing date makes little difference as July and August are a disaster for getting anything done with annual holidays etc. Caveat here is that payment date really needs to stay where it is.”

“To advance the payment date, in the current economic environment, would be folly.”

“Taxpayers will not have sufficient information to allow the correct filing of returns on the earlier dates. This is due to a longer period for the filing of corporation tax returns and the later pay and file dates in other jurisdictions, particularly the UK.”

CTAs in Cork

“The proposed June option would be unworkable both for taxpayers and for the profession, i.e. for all practices, whether small, medium and large. This would have major adverse and potentially unmanageable, implications for the running and staffing of practices – 10.5 months work would require to be done in 6 months. This would inevitably lead to staff layoffs and short-time working for a considerable part of the year.”

“Most practices also actually prepare the accounts for the bulk of their clients and would physically not be able to do so for all of them in what would effectively be a 3-4 month period.”

“From many years of experience as busy and pro-active Income Tax Practitioners, we know that about 50% of Self-Assessment (Tax) Clients will only fully engage with the 31st October Deadline in the final month (leading up to that Deadline). Eleven years of this certain pattern has become systematically ingrained since the 31st October Deadline was introduced in 2002**.”**

“The type of pressure that the filing season gives rise to, cannot be resolved by taking on extra staff on a temporary basis. Unlike other types of job the type of experienced person that would be required for such specialised work would not be available for temporary assignments and the cost could not in any event be justified. It will be difficult enough to retain the regular staff for the 6 month fallow period that would occur between the proposed filing deadline and the end of the year.”

“The summer period up to the end of August is traditionally the busiest and most productive time of the year for the farming community and the tourist industry. Persons in those sectors are so busy during those months with the day to day running of their businesses that it is unreasonable and impractical to expect them to also attend to the burdensome task of preparing and assimilating their books, records and other documentation during those months when they have for many years been accustomed to the much more practical and reasonable current system which is more in tune with the normal and natural routines of both taxpayers and their agents.”

“Revenue would be seriously hindered in their ability to carry out Revenue audits during the 6 month period to June since practitioners would be so totally absorbed in the preparation and filing process that they simply would not be able to also attend at or deal with such audits.”

CTAs in Limerick

“From a practical standpoint it *(the Pay and File deadline*) forms a very intense and stressful part of our year as an accountancy firm ... Our clients, SMEs, have been through a torrid time since 2008 and in spite of this have maintained an increased level of compliance when it comes to Pay & File. Most if not all of these business are just hanging on and cash-flow is constantly their greatest challenge….Pay money at an earlier date that in many cases they don’t have. Where will they get it? From our banks?????????”

“Accountants and tax practitioners are essential to the whole self-assessment system and in order to ensure that we carry out our work in a professional and diligent manner, we strongly feel that the current filing dates should be retained”

CTAs in Mayo

"The existing system works! Compliance rates are excellent. Bringing forward the tax payment date will put unnecessary pressure on tax payers by reducing the number of months available for putting cash in reserve to meet the payment date. This can only serve to reduce compliance rates."

"Does the government not understand the impact this will have on the already stretched resources for smaller firms"

CTAs in Galway

"Agents have successfully achieved a 95%+ compliance rate with this regime…The system works - don't try to fix it!"

"In my opinion the following are some practical reasons why I cannot see how an earlier date could work:

- P60's don't issue till late February/early March so a lot of taxpayers do not forward their Income Tax information until March/April as a result.
- Financial Institutions are slow in issuing Certificates of Deposit Interest and Certificates of Mortgage interest.
- Documents from Government Departments such as Social Protection and Agriculture are usually very slow in issuing.
- Accountancy Firms have a lot of staff on study leave and annual leave during this period
- It's too early in the year to expect taxpayers to pay Preliminary tax for the current year."

CTAs in Wexford

"The 14 November deadline works well at the moment"

"There should be no change to the Pay and File date, the argument for change just doesn't stack up"

CTA in Meath

"When Pay & file moved from 31 January to the previous 31 October, we had 3 year lead-time. It required constant chasing of clients to get their records, basically I moved forward 1 month each year. There is no way I could achieve a 30 June filing date. It will put me to the pin of my collar to meet a 30 September deadline, which is 6 weeks earlier."

CTA in Kilkenny

“I think Government have forgotten (conveniently) how over the years practitioners have reduced Revenue’s workload considerably by us filing returns online etc, so now is the time for us to stand up and say no to this one.”

CTA in Sligo

“.. I think that the problems associated with any proposal to change the pay and file date are blindingly evident, both on our clients' side and on the side of the practitioners as well. The general practitioner's year is relatively manageable at present given the various deadlines for companies’ tax and accounts, CRO deadlines, and income tax at this time of the year…if the schedule does not work for practitioners, it causes problems for Revenue also.”

CTA in Louth

“This Practice has seen a substantial increase in the number of clients either struggling to pay or unable to pay their Income Tax liability this year. We would be very concerned that if the deadline was to be moved up, that there would be a number of clients with very serious cash-flow problems who may have to cease business.”

CTA in Clare

“…could Michael Noonan give us a bit of a hand in getting our perpetually late clients to present themselves earlier – say a 5% reduction in tax due where clients pay and file before April or May month ends?”