Interacting with Revenue - Audits and Interventions

Jonathan Ginnelly outlines the various audits and interventions undertaken by Revenue and how best to prepare for an audit or intervention.

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The core role of the Revenue Commissioners is the assessment and collection of taxes and duties. In this regard in order to promote compliance by taxpayers with the tax system the Revenue Commissioners vigorously pursue those who do not comply with the tax system through various types of Revenue intervention. Revenue interventions vary from Revenue aspect queries to Revenue audits and investigations. The core purpose of these interventions is to collect any taxes and duties that are correctly due to the State. Interest and penalties are also imposed to promote compliance. According to the Annual Report of the Revenue Commissioners for 2016, the total number of interventions for that year was 537,204. The vast majority of these interventions related to risk management interventions and assurance checks. A total of 6,173 audits were carried out by Revenue. In 2016 the total yield from Revenue audits was €247.9m, and €555million from all interventions. The figures show that the level of Revenue interventions activity is significant and has resulted in significant taxes being collected.

Aspect Queries

An aspect query is a request of information by Revenue in relation to a particular risk that has been identified. This type of query can be dealt with by a correspondence. It does not constitute a full audit of the taxpayer's affairs and generally relates to a specific issue. If any issue is identified by the taxpayer during aspect query an unprompted qualifying disclosure can be made.

Audits

In relation to a full Revenue audit, such an intervention is an examination of the figures included in a tax return against the figures shown in an individuals or in a company's records for one or multiple tax heads.

The manner in which individuals or companies are selected for audit varies. The selection can be random and any taxpayer could potentially be selected for audit. However, generally taxpayers that are selected for audit would have certain risk indicators that would be highlighted on Revenues system and as such lead to an audit being launched for that taxpayer.

Revenue Interventions Procedures

An aspect query is generally dealt with by way of correspondence to the taxpayer or their agent. This correspondence will outline the risk Revenue has identified and seek clarification or information in relation to this issue. The taxpayer/agent will then respond as necessary to the query and liaise with the Revenue official to conclude the query. If as part of the review when responding to such queries a tax liability has been identified then the taxpayer may need to make a qualifying disclosure in relation to a particular tax head.

In relation to a Revenue audit, an audit notification letter will issue to the taxpayer and/or their agent. The letter will outline the tax heads and years under audit and may set out details of information Revenue may require to be submitted in advance of the audit.

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The date and time of the audit is also included in the letter. However, if the date or time do not suit, or do not allow sufficient time to review the taxpayers affairs before the audit commences, then the taxpayer can request an alternative date. The taxpayer should engage with Revenue early on such changes.

Many audits, particularly of companies, are now carried out by way of e-audit. The taxpayer may need to supply various electronic files and data to Revenue. This data is uploaded to Revenue's system. Revenue are not permitted to operate the taxpayer's computer systems so the files are uploaded to Revenue's system for analysis. If a request for an e-audit is made then the taxpayer/agent will need to liaise with the Revenue officials in advance of the audit to prepare for the data transmission.

In relation to the Revenue audit itself, there will be an initial interview of the taxpayer by the Revenue auditor (the taxpayer's agent usually also attends). The Revenue auditor will generally seek to have this meeting at the place of business of the taxpayer. If the taxpayer does not have a place of business then they will request to have the interview at the taxpayer's home although the Revenue Commissioners have no right to enter a person's home without permission. In certain instances if the taxpayer does not wish Revenue to visit their home then the audit meeting might (with the agreement of Revenue) be held in the offices of the agent.

From a practical perspective a review of the tax heads (and periods) under audit should be carried out in advance of the audit. If any issues are identified which would give rise to an additional tax liability, the taxpayer should prepare a disclosure. The additional tax liability (as well as interest on this tax) should be calculated and included with the disclosure letter.
During the course of the audit interview the taxpayer will be invited to make a qualifying disclosure at that meeting. The Revenue audit does not commence until after the audit interview has been concluded so a qualifying disclosure can be made up to the end of the interview. The qualifying disclosure must include details of the tax liabilities that have been identified as well as tax and interest computations. Payment of the tax and interest must also accompany the disclosure. The liability can be paid by way of a cheque or by way of electronic funds transfer to a specific Revenue account. Penalties are agreed with Revenue at the end of the audit.

In general where taxpayers are engaged with Revenue in some form of Revenue intervention be that by way of an aspect query, audit or investigation, the taxpayer should, together with their agent, review the periods under audit or investigation in detail to make sure that they were fully compliant with their tax obligations in those periods. It is important in this process to be as open and cooperative with the Revenue officials as possible and ensure that any omissions or mistakes that have been identified are declared to Revenue.

In relation to aspect queries and audits, the possibility of making a qualifying disclosure could mean that the taxpayer will benefit from lower penalties and avoid publication. If the taxpayer makes a qualifying disclosure before any notification of a Revenue audit is given then they may be able to avail of the unprompted qualifying disclosure treatment and possibly avail of the lowest category of penalty. If an audit notification letter has been issued then any disclosure will be a prompted disclosure and the penalties will be higher.

In the case of an unprompted disclosure or a prompted disclosure provided all the requirements are met, there should be no issue of publication for the taxpayer. Generally, if the tax liability together with interest and penalties does not exceed €35,000 then there would be no publication of the outstanding liability.

Offshore Income and Gains

The Revenue Commissioners have in the last number of months issued correspondence in relation to disclosures of offshore income and gains. The initial deadline for disclosing any undeclared offshore income or gains was 30 April 2017. This was extended to 4 May 2017. Any disclosures made after this deadline which include offshore income or gains may not qualify for a qualifying disclosure treatment and as such will face the higher level penalties as well as the prospect of publication. Therefore, if a taxpayer identifies any such offshore income or gains that has not been disclosed then they should be aware of the fact that they can no longer avail of the qualifying disclosure treatment.

In summary, when dealing with the Revenue in relation to any type of intervention, a thorough review of the periods or issues being queried/audited should be undertaken. Any liabilities that have been identified should be disclosed and the taxpayer should be transparent and cooperative with the Revenue officials throughout the process so as to finalise matters and to ensure that the taxpayer is fully compliant.