



**Remarks by the Irish Taxation Institute
at the Joint Committee on Finance and the Public Service,
January 17, 2007**

Introduction by Dermot O'Brien, President, ITI

Chairman and Members of the Committee,

On behalf of the Irish Taxation Institute (ITI), I would like to thank you for the invitation to join you here today. We look forward to discussing with members the important issue of unclaimed tax reliefs and to offering our thoughts and suggestions of how best we can ensure PAYE taxpayers get their rightful entitlements.

As President of the ITI, I wish to commend the Chairman and members of this Committee for taking an active interest in this subject. Your initiative in putting the issue of unclaimed taxes on the formal Oireachtas agenda is a reflection not only of the importance of this subject, but also recognition of the central role played by the most important stakeholder of all in our tax system – the PAYE taxpayer.

I am joined today by Mark Redmond, Chief Executive of the ITI and by Cora O'Brien, a Director with the ITI. If the Committee is agreeable, my colleagues and I propose to use the time allocated for our opening address to offer some brief background information on the ITI, our work to date in the area of unclaimed taxes, our views on the current administrative system for claiming tax reliefs and finally to put forward some specific measures we believe could be taken to offer real improvements for PAYE taxpayers. We will be happy to

take any questions members of the Committee might have arising from our presentation.

The Irish Taxation Institute

As the leading representative body on taxation affairs in Ireland, and an organisation with 5,500 members nationwide – the ITI's key function is to create a deeper understanding of how our tax system works. Now in our 40th year, ITI educates, represents and sets standards for qualified tax advisers and works to inform and assist PAYE taxpayers in their day-to-day dealings in taxation matters.

Through our nationwide branch network and comprehensive committee structure, our members are actively involved in developing and advancing research on taxation. The practical, everyday experience of our members also means that the ITI has a very important role to play in outlining its views on the administration of our tax system.

For sometime, it had been clear to our members that people are losing out on significant amounts of money every year by not claiming their tax entitlements. To ascertain the scale of the problem, last June we decided to conduct the first ever survey of PAYE taxpayers, details of which my colleague Mark will present to you shortly. The findings of this survey, whilst stark, have brought real attention to this issue for the first time. Furthermore, they have placed an onus on all of us who believe in an efficient and fair tax system, to take meaningful action to address the issue of unclaimed taxes.

To detail how we can best achieve this objective, I would now with your permission Chairman, like to hand over to my colleague, Mark Redmond.

Mark Redmond, CEO, ITI

Thank you Chairman.

Chairman, in your letter of invitation to the ITI to appear before your Committee today you asked us to specifically brief you on three key areas:

- The level of non-claiming of tax allowances
- Ignorance among taxpayers about tax relief in general
- The level of support offered by the Revenue Commissioners to taxpayers in informing and assisting them in the area of tax reliefs and allowances.

My colleague, Cora O'Brien and I will now address these issues.

The level of non-claiming of tax allowances

ITI believes that individual taxpayers are entitled to receive all necessary information in a clear and timely manner to enable them to meet their tax obligations but equally to avail of their tax rights and entitlements. We also believe that individual taxpayers are entitled to an efficient and timely service from the Revenue Commissioners and to independent oversight and monitoring of their rights as taxpayers.

As the members of the committee will be aware, the ITI has, in recent years, engaged in a number of initiatives designed to provide individual taxpayers with clear information on their obligations and entitlements. For example, in early 2006, as part of our PAYE Tax Return Week campaign, we published a series of tax guides written for the ordinary taxpayer. These guides covered issues such as "Understanding Health Expenses" and "Understanding childcare entitlements" – and were made freely available throughout the country through the network of Citizen Information Centres and through our website. We also had these guides translated into Polish, Czech, Slovak, Latvian and Lithuanian.

The response from the general public to these initiatives confirmed statements that had previously made by a number of members of this Committee, namely that a substantial number of our more than 2 million PAYE taxpayers were, unknowingly, paying too much tax.

As Dermot has alluded to, it was against this backdrop that we commissioned Red C Research to carry out an opinion poll measuring the level of understanding amongst PAYE taxpayers about the tax system. The key findings of the poll will not surprise members of the Committee as they confirm what we all suspected – hundreds of millions of Euro have been overpaid by our PAYE taxpayers. This deep-seated problem needs to be addressed in a systematic and sustained manner. The key poll findings regarding non-claiming of tax allowances, first published in the Sunday Business Post of 25 June 2006, were as follows:

- 50% of taxpayers are not claiming tax relief on medical expenses
- 55% of taxpayers are not claiming tax relief on bin charges
- Two in five (42%) taxpayers leave their tax affairs to their employer yet a similar number (43%) are not sure if they are getting all their entitlements

We have estimated that the tax overpaid as a result of non-claiming of medical expenses alone could be €50m per annum. However we must stress that this is a non-scientific measurement and could be conservative. The chairman of the Revenue Commissioners, Frank Daly, stated at the Public Accounts Committee on November 9 last that the amount of PAYE tax overpaid by employees could amount to €100m per annum.

Ignorance among taxpayers about tax relief in general

Our poll results show that one of the contributory factors to the non-claiming of tax credits is lack of awareness and understanding of the system amongst ordinary taxpayers. The key poll findings in this area are as follows:

- 1 in 2 PAYE taxpayers or 1 million people do not understand the tax system
- 700,000 PAYE taxpayers (35%) do not understand all the tax information on their P60
- 37% of taxpayers do not understand their tax certificates

These findings are consistent with those of other studies. For example, market research published by Irish Life this month reports that almost 60% of taxpayers don't understand how tax relief for pension contributions works.

Support offered by Revenue

In the period following the publication of our findings, specific actions were taken by Revenue. In August 2006, Revenue launched an information campaign designed to inform individual taxpayers of their entitlements and to claim refunds that might be due. We also believe that Revenue deserve credit for their on-line filing system which, to date, has been unavailable to the PAYE taxpayer but we understand Revenue will widen the system to include PAYE taxpayers in the coming year.

The ITI strongly welcomes the commitment made by the Minister for Finance in his Budget 2007 statement that: *"The Government is determined to make it easier for ordinary taxpayers to claim and receive their rightful entitlements"*.

In his Budget, Minister Cowen announced further changes to help taxpayers get their entitlements at source. For 2008, Revenue has indicated a plan to move, where possible to automatic payments in respect of certain hospital and other expenses that qualify for tax reliefs. The Minister has also tasked Revenue to bring about similar measures for nursing home and other medical expenses.

Following the Minister's Budget statement, Revenue announced that over the coming year they will be engaging in a process of consultation to make the system simpler – we strongly welcome this and we will offer whatever support

and assistance we can. It is of critical importance that this consultation includes the identification of the obstacles, real or imagined, deterring ordinary taxpayers from claiming their entitlements and steps to remove them – this can only be done by consulting extensively with ordinary taxpayers.

Each of these are steps in the right direction, but the onus is on everyone concerned to explore options which would lead to lasting change.

We would like to remind members of the Committee that any material delay in addressing this issue will cost ordinary taxpayers a significant amount of money. As a result of changes introduced in Finance Act 2003, taxpayers are only entitled to claim tax overpaid in the previous four years – previously they were entitled to go back ten years. In real terms, this means that those who have incurred expenses in 2002 can now no longer get tax relief on these expenses.

ITI believes that Revenue has the key responsibility to make the system easier and my colleague, Cora O'Brien, now offer some suggestions as to how this might be achieved.

Cora O'Brien, Director, ITI

Power point presentation (available to members).

Summary by Mark Redmond

Members, it is clear from what we've seen that our tax administrative system is not customer focussed. As it stands, the language of tax is confusing and intimidating. Equally, tax forms are cumbersome and complex. This need not be the case and were it to continue to be so, we would be failing PAYE taxpayers.

To tackle this issue once and for all, ITI is today proposing four key tests which the system must pass.

1. **Quantify**: If the problem is to be effectively tackled it must be scientifically quantified. We recommend that a body such as the ESRI be commissioned, in cooperation with Revenue, to quantify the amount of tax relief foregone
2. **Simplify**: we must adopt a “one claim, one form” approach to claiming tax reliefs. Red tape must be replaced with a concise, jargon free format for getting your entitlements
3. **Swift**: if you make a claim, you should receive your refund in a timely manner.
4. **Educate**: we have got to educate PAYE taxpayers in a targeted, imaginative and most importantly, sustained manner about the tax system and their entitlements. The more tax wise PAYE taxpayers become, the better the system

These four tests can only be passed by taking a proactive, more customer focussed approach to the tax system. Central to this must be ensuring that suitable structures exist to protect taxpayers and to monitor the system as a whole. This can be best achieved through a “Tax Advocate” type figure, independent of Revenue. Useful models for such a role exist in other countries. We believe this role could be created without additional “red – tape”. For example, it could come within the auspices of the Ombudsman.

Simultaneously, Revenue should take the lead by establishing a PAYE Customer Satisfaction Unit within its Office. A proper functioning, adequately resourced PAYE Customer Satisfaction Unit would be tasked with delivering a major simplification of the tax relief process following consultation with taxpayers through a process of customer panels.

These types of proactive measures are now needed in the interests of our 2 million PAYE taxpayers.

Thank You.

ENDS