

Irish Exporters Association

President's Lunch and Gold Medal Award to Frank Daly former Chairman of the Revenue Commissioners

16th July 2008

Address by Frank Daly, Chairman of the Commission on Taxation

President, Council Members, Chief Executive, Members and Guests

I am somewhat overwhelmed by the honour which you are bestowing on me today and by the remarks of your President in his earlier speech. Those remarks, both in regard to myself and to Revenue as an organisation, were generous to a fault and on my own behalf and on behalf of my former colleagues (because I believe that whatever Revenue has achieved is the work of many and not just one) may I thank you most sincerely. I shall cherish this award - both as a recognition that at least some part of my official working life to date was useful to somebody – and also as a gentle reminder that in my ongoing work there may be more to be done on the same lines!

I thought in my own remarks to you today that I would deal with three areas which are of interest to myself but which also, and perhaps more importantly, may be of interest to you – trade facilitation; the work of the Commission on Taxation and finally (building on aspects of the work of Revenue which you have chosen to be so positive about) a few words on challenges facing the Irish Public Service as we respond to the needs of business in more difficult times.

Trade Facilitation

Expert views of Ireland's immediate growth prospects, and our capacity to sustain that growth into the future, emphasise the contribution of our general export performance, both current and projected. Special emphasis is given to the production and exportation of knowledge intensive goods and services and indeed growth in this area is vital to continued prosperity – it would be short-sighted however to ignore the continued contribution of other sectors to our export performance - your President in fact has already referred to export performance in general terms in his earlier remarks and I too will refer to general performance across all sectors.

I do not need to tell this audience that Ireland's open economy is dependent on international trade to a much greater extent than many other countries and therefore that Trade Facilitation - in its broadest sense – is of the utmost importance. I say "in its broadest sense" because sometimes we perhaps unfortunately confine the term Trade Facilitation to the logistics of the

movement of goods or transmission of services. The reality is that there are a variety of other factors that can either hinder or contribute to export growth and many of these will feature prominently in the work of the Commission on Taxation.

But for now let me refer to trade facilitation in its most practical and immediate sense and to the real challenge of identifying and then, either minimising, neutralising or (ideally) eliminating, barriers to international trading in goods and services – and doing so in a world that is increasingly focused on security and threats to public safety.

Revenue commitment to an effective trading sector

It goes without saying that Revenue is vitally interested in Ireland having a competitive, efficient and effectively functioning international trade sector. This is so for many reasons – for the revenues that successful businesses contribute to the Exchequer, for their value directly and indirectly to the economy as a whole, and of course because this sector is the most important “Customer Sector” for Revenue’s Customs Service.

Irish Customs understand the challenges facing operators in the current competitive international trading environment. Working in partnership with the trade the Customs Service realises that, in these difficult times, everything counts – especially the added costs of the regulatory burden. Believe me when I say that the importance of a “light touch” to controls is fully appreciated. I know that Customs are determined that the free movement of goods by legitimate trade will not be unduly compromised. Their policy has been and will continue to be one of minimum intervention consistent with the necessary customs controls.

The well tried model of the trading community working in partnership with Customs is the best way to ensure your mutual endeavours are successful. However, we do have to be mindful that the environment for traders and Customs has changed quite fundamentally in the last few years.

The Customs Environment has changed - security is the “big issue”

I was in Washington on 9/11 and within 24 hours saw at first hand the beginnings of a world that would change. It is a case in some respects of back to the future – control of imports is already here and we will shortly face the prospect of controlling exports again. Only this time the controls are not primarily about money and tariffs and smuggling. This time they are mainly about security. Further atrocities since 9/11 in Madrid, in London and so on mean that we can be reasonably sure that the concerns about security are here to stay.

New programmes are being developed by Customs Services worldwide, by the European Union, by the World Customs Organisation, to respond to the concerns of their Governments. It is vitally important that Irish companies are aware of these new programmes and are ready to operate in this new environment – vitally important for their businesses and vitally important for Ireland.

These new programmes will inevitably bring new compliance obligations for business. I know that Revenue recognises the particular challenge which security in international trade and protection of the international supply chain represents and is responding on two fronts:

- Internationally they are absolutely committed to influencing the worldwide response in the right direction – the objective must be that this response is measured, balanced and sensible.
- Domestically Revenue are committed to developing programmes in the compliance area in a way that facilitates legitimate trade to the greatest extent possible –and of course working with the trading community to this end.

Working together helps

Indeed, Ireland, Irish Customs and the Irish Trading Community are well placed already to address these challenges following the successful launch of the enhanced electronic Automated Entry Processing [AEP] Clearance and Risk Analysis System in June 2007. A singular feature of the successful delivery of this system (which now has 99% take up) was the really productive consultative and partnership approach between Customs and the Trading Community – a collaborative approach that has also delivered on other major customs projects over the years and been a major factor in helping importers and exporters to cope successfully with the changing Customs environment.

Trade involvement through formal consultation mechanisms, particularly the Customs Consultative Committee, has served this country very well – it is a model for productive engagement and dialogue between the Regulator and the Regulated that is not by any means the universal model abroad. As we move forward, in a more security conscious environment, I would expect that the same level of two-way co-operation will continue to this country's very great benefit.

The new AEP Clearance and Risk Analysis System lays the foundation for a series of future EU Customs related developments and is of course one of the building blocks for the paperless cross border trading environment characterised hopefully by reduced data requirements and the Single Window of the future.

Authorised Economic Operator (AEO)

Your President has referred to the laudable aim of minimising security procedures for legitimate traders. The Authorised Economic Operator (AEO) programme was introduced for that very purpose – for compliant and credible traders who meet certain standards and have adequate safety and security procedures in place. Having acquired AEO status, traders will be given specific benefits that are designed to counterbalance the potentially negative effect of the other security initiatives.

Ireland commenced the acceptance of AEO applications last October and the Programme came into effect at EU level on the 1st January this year. To date,

over 1,000 applications have been received in the various Member States and in excess of 150 AEO Certificates have been issued. In Ireland, 13 applications have been accepted and Revenue expects to issue the first AEO Certificates shortly.

When the AEO legislation was being drafted at EU level, there were concerns among the SME sector that their members might find it difficult to meet the qualifying criteria. The SME sector should have no fears about applying for AEO status. The legislation specifically obliges Customs Administrations to take account of the specific characteristics of small and medium sized operators and this was something which Ireland, among others, emphasised at the drafting stage. Because of the importance of the SME sector to our economy there is full recognition that AEO requirements for this group must not be unduly burdensome while still ensuring that sufficient controls exist to provide the necessary supply chain security.

For that reason Revenue deliberately involved a small Irish manufacturing exporter in the AEO pilot programme during the first half of last year. From experience with this pilot, I know that Revenue are confident that the SME sector will not be at a disadvantage compared to the multinational sector in the AEO application procedure.

One of the major benefits of becoming an AEO is that this EU programme is based on a World Customs Organisation model. 166 countries worldwide have committed themselves to introducing an AEO type programme within the next few years. The long-term intention is that, under mutual recognition agreements, an AEO in the EU may eventually be recognised and given benefits in up to 166 countries worldwide. In the context of your President's earlier concerns about the real challenges in moving goods internationally, this is an important point.

The work of the Commission on Taxation

Let me move on to the work of the Commission on Taxation.

The Commission was established on 14 February, 2008 to review the structure, efficiency and appropriateness of the Irish taxation system. In setting up the Commission, the Taoiseach (then Tánaiste), Brian Cowen, TD, indicated that its work would help establish the framework within which tax policy would be set for the next decade at least, and that it was important that it took a strategic, considered and balanced perspective that recognised the evolving challenges ahead.

Let me say at the outset that this is the approach the Commission is taking – we recognise the realities of the current challenging times and our work must take account of these. However, we have a forward focus and are interested in developing recommendations for a tax system that provides a long term sustainable fiscal environment within which the sometimes competing issues of social equity and economic development are addressed in a creative and compassionate way.

Terms of Reference

The terms of reference for the Commission are far-reaching. We have been asked to have regard to the commitments on economic competitiveness and on taxation contained in the Programme for Government and, in the context of maintaining an equitable incidence of taxation and a strong economy, to consider the structure of the taxation system in six specific areas:

- 1) how best the tax system can support economic activity and promote increased employment and prosperity while providing the resources necessary to meet the cost of public services and other Government outlays in the medium and longer term,
- 2) how best the tax system can encourage long term savings to meet the needs of retirement,
- 3) to examine the balance achieved between taxes collected on income, capital and spending,
- 4) to review all tax expenditures with a view to assessing the economic and social benefits they deliver and to recommend the discontinuation of those that are unjustifiable on cost/benefit grounds,
- 5) to consider options for the future financing of local government, and
- 6) to investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

This is a challenging agenda by any standards – even more so when you realise that the Commission is requested to report by 30 September 2009 – less than 15 months hence!

We held our inaugural meeting on 5 March and are hard at work ever since!

Dialogue and consultation

There has been considerable interest in the setting up of the Commission, as this was the first full-scale review of the tax system in over 20 years. We decided at the outset that dialogue with interested parties would be a key part of our approach. Written submissions would give people an opportunity to make proposals on one or more of the topics covered in the terms of reference.

Some 110 submissions have been received to date from the general public, a wide range of public bodies and private sector organisations.

This is considerably less than the number of submissions received by the last Commission on Taxation in the early eighties – I will leave it to yourselves to

consider why! It could of course be that more people are content with the system as we have it – however it would be wrong of me to draw conclusions here! – but it is fair to say that the taxation system we have now is very different from that of 20 years ago.

We are consulting widely with a large number of bodies in the private and public sector and also intend that a series of oral hearings later in the year will provide further useful interaction with interested parties. I've already referred to the value of dialogue in relation to Revenue's interaction with the business community – this is more of the same approach – as a Commission we do not have all the answers, the best solutions are achieved by engagement with all the stakeholders in the Irish Tax System, we are committed to that engagement.

Some principles the Commission is using

It is too early (and indeed would not be appropriate) for me to refer today to any specific area or proposal that the Commission has worked on to date.

However we have decided on a set of guiding principles – comprising both general principles of taxation and operational principles to help us in our work.

Included among those general principles of taxation are:

Equity or fairness, broadly meaning taxing persons on ability to pay, measured by income or wealth. This reflects the Commission's terms of reference to consider the structure of the tax system in the context of *maintaining an equitable incidence of taxation* and to have regard to the commitment contained in the Programme for Government to increase *the fairness of the tax system*.

The principle of **Simplicity** requires that the tax rules are known and that liability is clear. It implies that the tax system is comprehensible: in other words, one where the tax base is certain and where the tax rules are clear and easily understood, so that the taxpayer can anticipate in advance the tax consequences of a transaction - when, where and how the tax is to be accounted for.

The "red tape" caused by taxation requirements covers the time and cost of the administration associated with compliance – such as making returns or keeping records that would not otherwise be required to be undertaken by the company or the individual concerned. It also includes the work needed in becoming compliant with a tax rule – such as putting appropriate technology, practices and procedures in place.

In adopting simplicity as a core principle, we will consider the regulatory burdens of any new taxes, or changes to existing taxes, that we propose. The terms of reference asked us to consider how best the tax system could support economic activity, and we consider that having logical, intelligible tax rules is a key part of this.

In this context we also appreciate the argument that administrative and compliance burdens can fall disproportionately on small and medium-sized enterprises (SMEs).

All in all I suspect that this simplicity principle will resonate particularly with the audience here today!

Flexibility in the tax system will also be one of our guiding principles. Business practices change over time. So do markets, technology and economic conditions. So do tax systems. A flexible tax system is one that is responsive to and capable of changing in line with these factors. For example, electronic commerce transformed the global economy from the late 1990s onwards, and tax systems worldwide had to adapt to the new types of transactions that emerged.

Flexibility of course is also relevant in the context of budget volatility and the ability to raise one tax to compensate for a shortfall in another. This raises the question of relying on particular areas to provide a revenue stream versus having a broader base, and is a question that we will consider in the context of the “balance of taxes” term of reference.

The Commission was asked in its terms of reference to have regard to the commitment in the Programme for Government that the regulatory framework should remain flexible, proportionate and up to date. The interaction between flexibility as a principle and simplicity as a principle is an interesting one – a tax that has too much flexibility may create uncertainty for businesses and individuals and go against the objective that tax liability should be clearly understood. We’re working on this!

Moving on from those principles related to the general design of the tax system (and there are others of course I haven’t mentioned) we have also adopted a few general operating principles for our approach to the work. Let me just mention two:

From the outset we have adopted an **evidence-based approach** wherever it was practicable. In doing so we intend to avoid unsubstantiated statements in the documentation and our Report and let hard facts, appropriate benchmarks

and international data (when available) support our analysis and validate our conclusions.

Finally on this matter of guiding principles, the Commission was given an 18 month timescale to complete its deliberations and we've 15 of them left! This suggests firstly that we, for the most part, focus on tax reform, rather than tax design. The obvious exception here of course is the design of the carbon tax, as this is not a feature of the current system.

Most of all the tight timescale means that we must adopt a **pragmatic approach**. Proposals put forward by the Commission must be tested for viability. Tax policy in the State for example is constrained to some extent by EU and international considerations, and we have to take account of these within reason.

The need to take a strategic, considered and balanced perspective (as I've mentioned above) must also mean that the Commission's proposals are grounded in reality. There is little point in wasting everybody's time with grand designs that have little prospect of ever seeing the light of day! However let me temper this a bit – pragmatism as a guiding principle will not preclude us from examining options that might be acceptable in a different economic or political environment.

Speaking personally (although I am of the view that this sentiment is shared by my fellow Commission members) I see the overarching objective of our work as that of creating an equitable tax system that supports and grows economic activity - this has never been more important and from it will flow the employment, resources and prosperity that we all aspire to.

Irish Civil Service challenges

Finally President, following through from your own references to Revenue as an effective modern organisation recognised internationally as a benchmark for service, innovation, planning and delivery, indulge me for a few minutes on one or two reasons why this might be so and, if it **is** so, whether there are lessons to be learned in the context of the current debate about a more effective public service.

Let me say firstly though that while it would be disingenuous not to acknowledge the progress Revenue has made, we have always been conscious of much more to do and of the many other areas in the Irish public service which do equally well and are perhaps not given due credit.

[Equally we're mightily conscious of the fact that there are not a few people who would much prefer if Revenue were among the **least** effective of Public

Service organisation – we have traditionally called these people “*customers with special needs*” – no more about them!]

Are there however some particular factors that have helped Revenue become this apparent paragon of much that we aim for in the public service?

I could mention the dedication, loyalty, commitment of Revenue staff – it is certainly marvellous but then I believe that other Departments also have staff of this calibre.

I could mention creative skilled managers but then I believe other Departments also have such.

There are two areas though where we might score – a direct connectedness with business and citizens that fosters a pragmatic “can do” attitude; and a less risk averse approach than some.

It seems to me that Revenue, because they are **on the ground** in the customs area at ports and airports or in the tax area on audits, are directly in tune with the realities of business and interact every day with those who manage business. Through this very direct contact Revenue people have assimilated over the years a significant degree of commercial awareness and have a pragmatic approach to solving problems and getting on with the job.

Most importantly, the top managers in Revenue will generally have had a grounding in this direct interaction with business – they will have experienced the sharp end of frontline delivery - and will bring this practical experience to the table in developing and implementing Revenue policy.

I strongly believe that direct experience of frontline delivery should be a core competency of our senior public servants – I hope that the ongoing work following the OECD Review will recognise and encourage this.

Secondly, (although it may be unwise to admit it now!) I believe that managers in Revenue tend to be less risk averse than some of their counterparts in the Civil Service. Now I fully recognise that Revenue’s independence as an organisation may be a factor here but, after all, we work within the same public service framework so there must be other factors at play – again one of them may be the greater exposure to commercial realities that is a feature of Revenue.

There is however a real challenge here for the Irish Civil Service – everybody agrees we need to become less risk averse – there is less certainty as to how we go about it. There is one certainty however - the challenge lies in adapting or creating space within the existing framework for **a more entrepreneurial civil service** to develop. And this will mean facing up to some unpalatable realities and acknowledging that:

- Measured and responsible risk taking is something that merits a measured response.

- What it should **not** merit is the instantaneous condemnation that seems to be the current norm.
- It should be recognised for what it is – a genuine attempt, following application of rigorous analysis and evaluation, to achieve an outcome where the result cannot be guaranteed but where the prospects of success are reasonable.
- And if there is failure in such circumstances the reaction should be one of analysis with a view to improvement the next time rather than condemnation for trying at all.

This I think is the approach that most of you in this audience here today would see as reasonable in your own businesses – developing a similar entrepreneurial culture in the civil service requires a similar reasonable approach.

No doubt there will be many who will argue with this – fair enough – I'm just expressing my own personal view (and I am NOT speaking on behalf of Revenue)

Finally President thank you and the IEA once again for the award of this Gold Medal and may I particularly congratulate you on presenting the first of these awards to a civil servant – that in itself is an initiative which will not go unremarked in the public service and will be a morale booster at a time when we are more accustomed to criticism than kudos!