

## **THE FINNISH EXPERIENCES IN INCREASING REVENUE MOBILISATION**

### **1. Some key figures and facts about the Finnish tax administration**

To start with, all the Nordic countries have a very good tradition of high tax compliance rates and relatively low tax gap. By tax gap I mean the uncollected difference between the expected and true tax yield. As well known, there are several reasons, why tax gap is unavoidable to some extent. However, modern tax administrations consider minimizing the tax gap as their core task.

Finland scored best in a recent EU study about tax gap on VAT, only 5 percent of the expected revenue remained uncollected. Also in other taxes the tax gap is assumed to be around 7 percent of the total revenue.

The collected revenue, including social security contributions and taxes collected by other authorities than tax administration, is around 88 billion euros which equals roughly 100 billion US dollars. With a population of 5 million people that is fairly high.

The number of our staff is currently 5000. Due to budget cuts, the number is still decreasing, and we are expecting to have some 4600 individuals in 2018.

The collection costs are about 0,8 % of the revenue and our yearly budget is 400 MEU. The Finnish tax administration is very ICT intensive and most of the labor intensive processes have been automated. Business models in business taxation and individual taxation differ, and especially the latter utilizes extensively data collected from third parties.

### **2 A good tax system and the tax administration's influence on tax revenue**

A good tax system is commonly considered fair, transparent and neutral. Wide tax base allows lower tax rates, needs less exemptions and means less administrative burden to taxpayers and thus creates more efficiency.

The main factors influencing the tax revenue are

- economy
- legal framework
- Perception of the community
- taxation processes
- taxpayer education and tax control mechanisms

A tax administration has very little opportunities to affect the first one, but all the other factors can be influenced. The trick is to find the best and most cost effective means in different situations and circumstances to optimize the revenue collection.

Dia tähän kohtaan

A poor tax administration might collect maybe only 40 to 60 percent of the total collectable revenue. A good administration can collect 95 percent. It makes a big difference and tax administration has a huge influence to revenue mobilization.

Tax revenues in Finland account 44 percent of GDP, as the OECD average is around 35 percent. In low income countries tax revenues account generally 10-15 percent of GDP.

The Finnish tax account from GDP is among the highest in the world, if not the highest at the moment. Still we manage to collect almost all of it.

Of course we benefit of an extremely low or non-existing corruption and a vast acceptance of taxes benefiting the society. Trust towards our tax administration is on a very good level.

However, to me it is clear that our continuous development model strongly based on strategic objectives and on a road map built on those objectives has played a big role here.

#### **Our four strategic objectives are**

1. Tax gap to shrink considerably
2. Taxpayers to meet their liabilities in full
3. Smooth and effective processes
4. Capable and motivated employees

We try to keep the eye on the ball:

- Focus more on effectiveness;
- Do less, but have a greater influence on taxpayers' behaviour
- The desired impact is to minimize the tax gap and increase the revenue

#### **4. Some practical examples**

## Services and processes

Our **Service Channel strategy** aims to move taxpayer service demands from face-to-face services to phone services and moreover to Internet services.

The Finnish Tax Administration provides both businesses and individuals with a wide range of e-services. Businesses can file all their major reports on line electronically. This covers, of course, annual tax returns and monthly VAT- and withholding reports. Most of the businesses use this opportunity, even though it is not yet mandatory.

The newest service will be opened by the end of the year: anyone can check all the businesses having tax arrears more than 10 000 euros.

Phone services are centralized to few call center teams around the country managing separate service lines to businesses and individuals.

As our returns **processing** is managed on a national level, and all the documents are digitalized, there is very little need for processing returns or any other tax matter locally at the taxpayer's domicile's tax office.

Levying the personal income tax is almost solely based on the data received from the employers, social institutions, banks and other third parties paying salaries, pensions or other benefits. This data is then prepopulated to tax returns and sent to the taxpayers. This automated process handles all our 5 million PIT returns, and the accuracy is very good. The returns then are processed with an automated rules based selection, which then lifts the risky cases to work queues. The individual tasks on the work queues will be subjects for desk audits and can be handled in any tax office through the country.

Our web site Vero.fi covers all information needs for businesses and individuals and we have around 18 million site visits per year, which is high taking that our population is only 5 million.

## Promoting compliance

Due to the withholding systems, wide use of third party data and risk management process the individuals have very little chances to avoid personal income tax.

Therefore promoting compliance among individual taxpayers is mainly focusing on improving service and guidance to help them to fulfil their obligations.

The business taxpayers are a different story. The businesses should be in the focus of every tax administration as the businesses pay not only their own taxes

but withholding taxes on behalf of their employees and VAT or similar on behalf of the end consumers.

The Finnish Tax Administration encourages the businesses to comply tax rules and regulations voluntarily. To do that, we need both whip and carrot. We provide good service, smooth processes and taxpayer education to those who want to comply. On the smaller group of businesses who comply only if they estimate a high risk to get caught, you must put a relevant pressure of audit and control. However, this does not mean you would need to audit all of them. A combination of a public compliance campaign and increased number of audits on the target group is even more efficient.

**To succeed**, the toolbox varies depending on the taxpayer segment. The four main segments of businesses are based on the size of the business meaning Large, Medium, Small and Newly Started.

These main segments are treated a bit different way and within them we still have treatment plans e.g. by industries or by the type of business. Examples to be mentioned could be *construction business*, where we apply specific reporting regimes, or *International tax avoidance*, including *transfer pricing auditing* and other activities going under the OECD BEPS initiative.

The **largest companies and corporate groups** are taxed in a Large Taxpayer Office. The LTO covers also all the financial institutions and all transfer pricing issues. This makes it possible to enhance the special expertise, which this taxpayer segment requires. In the LTO we are also piloting horizontal monitoring/enhanced cooperation methods with some companies.

The **small and medium size companies** are administered in a few business tax and audit offices (not including the private entrepreneurs). The main tools in these segments are taxpayer services, guidance and education combined to desk audits. As an outcome of a tax risk based selection process, some companies will be subject to desk audit or targeted and comprehensive field audits. However, the smaller the company and the tax risks are, the less likely it will be audited.

For a couple of years the **newly started businesses** have been in our special focus. We recognized that the new businesses had difficulties in managing their tax obligations, and if they started to slip away from the right path, it was very hard to get them back. Tax arrears easily started to accumulate, and finally a good business initiative might just have ended up to bankruptcy.

At present we have a special working process and follow up for this segment. The company's tax payments and reporting will be very closely monitored during the first 6 to 12 months, and any anomalies will be immediately communicated with the company. The main goal here is to keep the genuinely new business in the tax net to avoid any unintentionally failures.

A fairly new initiative is the enhanced cooperation with the ***certified accountant firms***. Around 800 accountant firms takes care of the accounts of maybe 150 000 SME's. Our thinking is that if we manage to ensure that the accountant firms do their job properly and be compliant, the risk for tax avoidance is smaller.

We provide the accountants dedicated expertise and advise in separate phone lines, we have training sessions and seminars with them, and we also explore possibilities for deeper cooperation. This might well lead to automated data submission directly from companies' bookkeeping systems to our data bases. It would be a win-win situation where the administrative burden on both sides would diminish remarkably.

Just to conclude:

The perception of the community and public is very good and our services are highly appreciated. The tax gap is on a reasonable level.

But this has not happened overnight. We have achieved the public confidence with many years' work on building a resilient service and improving our ability to understand the reality of businesses and other taxpayers.

However, this is a continuous exercise. We still need to work to improve the communication with the taxpayers and other stakeholders.

Thank you for your attention!