Greek Tax Agency Benchlearning and Evaluation Project

Deliverable D.5 Part B
"International Case Studies: Finnish Tax Agency"

ΠΑΡΑΤΗΡΗΤΗΡΙΟ
για την κοινωνία της πληροφορίας

Project Title: Greek Tax Agency Benchlearning and Evaluation Project

Deliverable: D.5 Part B "International Case Studies: Finnish Tax Agency"

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Introduction

This document represents Part B of deliverable D.5 on the two cases selected for benchlearning to be compared with the Greek case and to illustrate the Finnish Tax Administration system, digital services production and delivery in its broader context.

The data gathering template used was developed combining the template used for deliverable D.1 with additional items, strictly related to impact measurement and closely in line with the input and indication contained in deliverable D.2. Accordingly this document is structured as follows.

In chapter 1 the general background is illustrated, including the functioning model, the key task performed and related volumes. The legal and organisational prerequisites are presented in chapter 2, whereas the input (strategic objectives, capital investments, human resources, and technological solutions) are considered in chapter 3.

Chapter 4 deals of with key processes of change (re-organisation, training, take up and communication strategy).

Chapter 5 explains the key parameters of the services and presents metrics on online submission of relevant forms.

Chapter 6 and 7 deals with impact measurement, though with different scopes. In chapter 6 the Finnish Tax Administration, the existing measurement systems and data are presented. In chapter 7, on the other hand, the analysis is focused on the three indicators selected for all three benchlearning cases in deliverable D.2, and namely:

<u>Efficiency Value Driver</u>:

- Proxy estimate of Full Time Equivalent Gain in the form of: opportunity monetary value of the time saved for data entry by LTOs employees in the Greek case, and by the comparable equivalent for the two international cases.

<u>Effectiveness Value Driver</u>:

- Reduction of waiting times for citizens and businesses to receive tax clearance in the Greek case and for a comparable equivalent for the International cases;
- Time and other resources (transportation, mailing, paying intermediaries) saved by citizens and businesses through online submission (same for all cases), in short "Reduction of administrative burden".

It must be anticipated, however, that as it will become clear from the peculiarities of the Finnish case the three indicators have been approached in a slightly different way.

1. General Background

1.1. Premise

The Finnish case does not fully conform to the logic of "Before" and "After" on-line services that underpinned the data gathering template. This is so, because the provision of online services is part of a long process of gradual but constant change started since early 1990`s and foreseen to continue up to 2012.

In the 1990s the change process developed along the following dimension:

- Simplification of tax rules in early 1990s;
- Increased gathering of tax-related information from sources like employers, social security, pension companies, real-estate and apartment registers, banks, security dealers etc;
- Gradual replacement of the traditional tax-declaration of Individuals with a Tax Proposal and later a Pre-completed tax return form;
- Increased level of automation in tax processing;
- eServices for companies tax reporting (VAT, withholding taxes, income taxes, individual tax rates of employees) from 1997;
- eServices to persons on remaining tax matters since 2000;

The change process has been evolutionary. Currently the Tax administration is moving to a new phase in which it will further automate processes, increase customer self-service, adjust the organisation to be able to reap more efficient benefits and personnel and other resources. The head-count will be lower, but the professional level will be on average increase. By 2012 the objective is to complete the transition from a bureaucratic to a professional organisation.

1.2. Functioning model and structure

The Ministry with jurisdiction on tax matters is the Ministry of Finance, through its Tax Department. The National Board of Taxes and National Board of Customs are separate agencies under the same department in the Ministry of Finance. In particular the overall Finnish **Tax Administration** system consists of:

The National Board of Taxes

It directs the administration, manages the information systems, is responsible for strategic planning, development of assessment processes and all guidelines, forms and handbooks concerning taxation. The task of the National Board of Taxes is to oversee the consistency and accuracy of taxation.

The regional tax offices

They are responsible for the taxation of individuals, businesses and corporations in their geo graphical areas of operation. They deal with tax decisions, taxpayer services and payment control. At the end of 2006, there were 49 tax offices, 5 corporate tax offices and 70 other points of service. Regional offices also embrace centralized units that handle tax audits, collection and recovery work.

The Tax Office for Larger Corporations

It covers the entire country in its operations. It is the central tax authority responsible for the taxation of larger corporations.

In 2006 the total number of personnel in Tax Administration was 6100. The value of taxes collected by the Tax Administration in 2006 was € 55,5 billion and the cost of the administration € 337,5 million. The cost of tax collection is thus 0,006 % of tax income. The number of employees has slightly decreased in the last few years as shown in table 1 below

Table 1 Total employees in the all Tax Administration System: 2000-2006

Year	2000	2001	2002	2003	2004	2005	2006
Employees	6 522	6 500	6 610	6 540	6 484	6 325	6 100

In late 1980s the number of employees was approximately 7 500. In addition to that, temporary workers and service providers were hired in winter and spring to transfer data from hard copies into Information Technology systems.

1.3. Tasks and volumes handled

<u>Type of taxes.</u>

The Finnish tax system on individuals is fairly simple from a tax-payers and employers point of view. By the end of the year each tax payer gets an individual pre-compiled tax-rate form for the starting year. The employer can receive this form for its employees on-line and directly embed it into the company's payroll system.

The pre-complied forms include all taxes and duties that must be paid to, and received by, different public bodies. The Tax Administration collects such taxes and duties on behalf of such bodies. Currently the bodies and the related taxes and duties are:

- The State
  - State income tax (progressive scale)
- Municipality (ca. 420 autonomous municipalities with taxing right)
  - Municipal income tax (single rate set by municipality);

  - o Real estate tax;
- The Social Insurance Institution of Finland
  - o Unemployment insurance fee
  - o Pensions insurance fee
  - o Sickness insurance fee
- Church tax
  - o Members of the Evangelical Lutheran Church and the Finnish Orthodox Church pay a tax to their own parish, which have different rates. 82,4 % of the Finns are members of the Evangelical Lutheran Church

Monthly calculations of the taxes and duties on wages are made by the employers; they withhold them, and accordingly report and pay a total sum to the Tax Administration. In the same payment and report they include employers' social security contribution, which consists of sickness insurance fee and national pension fee. The social security fee is a percentage of wages paid, the rate is lower to employers paying less than 1 M € of wages per year.
The total tax burden in Finland was 43,5 % of GDP in 2006. The total burden was at highest 47,5 % in 2000. The net tax burden (taxes minus income transfers) was 19,5 % in 2006.

Tax payers and tax receivers

Main groups of tax payers in 2006 were:

- 4 566 000 individuals
- 95 000 farmers
- 546 000 companies and corporations
- 268 000 VAT liable
- 119 000 employers who regularly pay wages (registered in withholding tax register)
- 103 647 irregular employers

Tax administration collects taxes on behalf of several tax receivers. In 2006 tax receivers were:

- State
- 416 municipalities
- Social Insurance Institution of Finland
- 415 parishes
- 52 forest management associations

Amount of tax collected

In 2006 Tax administration collected 55,5 billion €, of which 11,8 billion € was returned to tax payers in the form of tax refund and 43,7 billion € was paid to tax receivers:

- State: 23,8 billion € (54 %);
- Municipalities: 15,2 billion (35 %);
- Social Insurance Institution of Finland: 3,8 billion (9 %);
- Parishes: 0,9 billion (2 %);

Taxes and duties based on income and wealth amounted in 2005 to 27,9 billion €. Divided by type of tax payer the tax income was:

- Private persons: 22,7 billion € (81,4 % of total);
- Wage earners: 16,5 billion € (59,1 %);
- Pensioners: 3,2 billion € (11,5 %);
- Farmers: 0,6 billion € (2,2 %);
- Self-employed: 1,2 billion € (4,3 %);
- Other and estates: 1,2 billion € (4,3 %).
- Companies and larger corporations 5,2 billion € (18,6 % of total)

Over 80 % of tax-income is "self-induced" – an employer calculates and withholds taxes from wages and pays them to the Tax administration. Companies also calculate pay and report VAT. The remaining 20% is collected by initiative of tax administration, e.g. real estate tax is calculated and invoiced automatically based on information in the real estate register.

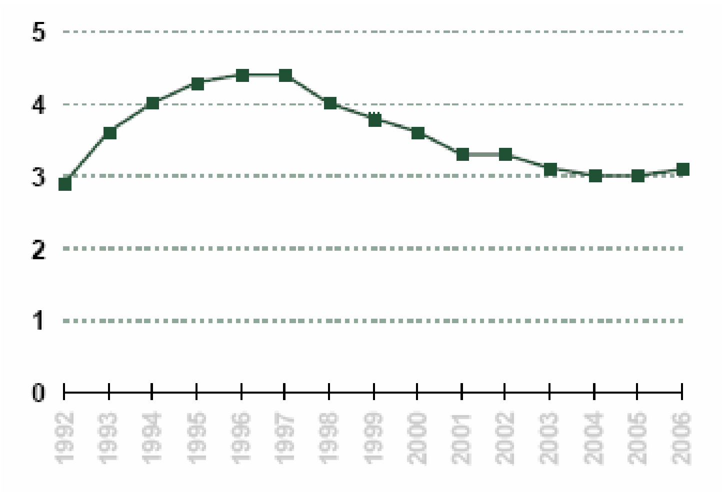
Backlog and tax litigation cases

In 2005 the withheld taxes amounted to € 28,1 billion. After the taxation, € 1,9 billion was returned to tax payers and € 1,2 billion worth of taxes were charged. Returns + back taxes were 11 % of withheld taxes. The goal is 10 %.Total amount on unpaid taxes was € 3,09 billion in end of 2006. By type of tax the unpaid were:

- Income taxes and withheld taxes: 41,6 %
- VAT: 37,0 %
- Employers fees: 19,9 %
- Other taxes: 1,5 %

Total amount of unpaid taxes at the end of year has been rather stable as shown in the exhibit below (scale is billions of euros. Figures are nominal):

Exhibit 1 Billions of unpaid taxes: 1992-2006



1.4. Time of tax digitalisation launching

The Finnish strategy has been created to automate the taxation of individuals. The required data is obtained from employers' social security, banks, pension funds, insurance companies etc. Automation indicated that individual tax payers have been progressively released from the obligation of yearly tax declaration. The first group to be moved to the pre-compiled tax-proposal system was the pensioners who did not have other major income sources than pension. The proposal system started in tax-year 1994. In tax-year 1999 some 700000 individuals were moved to the system and in 2000 already 3 Million tax-payers were freed from filling the tax declaration. In 2000 some 1,2 million tax-payers were still in the traditional method. In tax-year 2005 all individuals got a Pre-completed tax return.

In the current Pre-completed tax return method the tax-payer does not have to do anything in case the pre-completed form has all the relevant information. When tax payers add information, out of this additional information, some 70 % is about transportation costs that are tax-deductible above a threshold value. Another item to be reported is additional earnings from real estate and/or financial assets.

The Ministry of Finance took an initiative in 1996 to reduce the administrative reporting burden on companies. Tax administration was participating in the project and in the beginning of 1997 an Internet based service was launched that made e.g. possible to file online monthly VAT and withholding tax reports. The services were gradually extended to other regular tax reporting.

1.5. Players involved

National basic registers on people, companies and corporations and real-estate are very important in the Finnish tax system. The Population Register Centre provides all information about addresses, age and marital status to Tax Administration. Real estate tax is based on ownership information from the registers of National Land Survey of Finland. Banks are important partners in taxation. All tax payments and refunds are done via banks. Banks also partner in several on-line services like **TYVI** and **Wages.fi**.

The **TYVI** –model uses private companies who offer to their customers a single channel for administrative reporting not only to tax administration but also to pension funds, labour unions, insurance companies and Customs. The Tax Administration has since 2003 co-operated with Ministry of Labour and The Social Insurance Institution of Finland on authentication of on-line service users. The three institutions have a joint service and the users can use either user ID`s and passwords of banks or the government provided PKI certificates to use the services in which personal data is handled.

2. Prerequisites

2.1 Legal-institutional framework

The tax-proposal system and the new pre-completed tax return -system have required some minor changes in tax laws. Laws do not describe in great detail how taxation is operationally done so the Tax Administration has flexibility in developing its working methods.

The law which explains the procedures on taxation was changed on 1.7.2004. The change provides the National Board of Taxation with the possibility to decree by executive order what data and when and how employers have to report on wages they have paid. Based on this change, the National Board of Taxation has ordered that all employers who have 40 or more employees <u>must send the yearly report on wages and withheld taxes electronically.</u>

Until recently, no specific and ad hoc organisational changes have been made to accommodate the change to electronic transactions. This is so for, as anticipated, the automation and digitalisation of tax return and has been one component of a gradual and evolutionary process of organisational change. In 2006 a Production Centre with special responsibility for online services has been launched (see later).

2.2 Basic information and payments infrastructure

The Finnish approach to development of taxation has a lot to do with reliable, public information infrastructure, extensive data sharing and a well working banking system.

The Finnish information infrastructure consists of central databases on people, companies and corporations, real estate and flats. They are known in Finland as basic registers. The objects have unique identifiers. Data is shared so that Tax Administration gets information on change of address or real estate ownership daily from basic registers

2.3 Initial drivers and leadership

The tax-proposal of 1995 and a pre-completed tax return form to all individual tax payers were initiated by the National Board of Taxation. Model for the tax-proposal came from Sweden. The Finnish version was slightly modified – e.g. in Sweden the tax-payer had to sign and return the tax-proposal but in Finland no action is needed in case there is nothing to add. In fact about 70 % of tax-proposals required no action from tax payer. The pre-completed tax return does not require any action if there is nothing to add. The pre-completed return is sent to all individuals and the percentage requiring additional information from the tax payer is higher than in the previous system.

Electronic filing of VAT and employer reports in 1997 was an initiative of Ministry of Finance. Its motive was to lower the administrative burden on companies by developing Internet based reporting services. In 1997 Tax Administration was changing the system of VAT reporting. It launched forms that would be OCR read by a service provider. The on-line reporting was launched at the same time but for years the paper form and OCR was the main method in handling the VAT reports. Before 1997 VAT reports were done through banks in the same transaction when paying the VAT of previous month.

Online tax services were considered something to be done once the automatic data gathering and pre-completed tax return to all are ready. Also resources required by conversion to Euro had an effect. The online tax service project was started in 2003 budget planning.

Ministry of Finance started a Productivity Programme in 2003. The goal of the programme was to cut the number of state employees by roughly 10 % during 2004 – 2012. From the Ministry of Finance[1] branch the Tax administration was singled out as having biggest potential both in number employees and percentage to be cut. The room for cutting number

[1] Valtiovarainministeriön hallinnonalan tuottavuusohjelma vuosille 2006 – 2011 (from www.vm.fi on 1.8.2007)

of personnel was agreed in mid-term budget agreements between the National Board of Taxation and Ministry of Finance. The decrease was made possible by the automation work done in 1995 – 2000 and decrease of work load foreseen to come from online services to be developed. The Tax administration did not need to cut its funding but just the number of personnel.

2.4 Existing data systems

The current back-office IT systems are on a technical platform developed in late 1980`s. The servers are on Open VMS. The database management system is Oracle. Applications are mainly batch processing – calculation of various taxes. Main programming language in legacy applications is Cobol. The batch applications also pick up cases in which the tax officers have to take a closer look or ask questions to tax payer. The batch applications also automatically send request e.g. in case where a company has not filed a monthly VAT report.

The tax officers use various query applications when working with tax cases that have come up from batch processing results or when the tax-payer has supplied additional information to the pre-completed tax returns. Tax officers have a client application that gathers a full view on the tax payer from different tax databases. The tax databases are mostly on "type of tax" basis. The personal ID number and company ID are primary keys in all databases.

Legacy has been a major problem both technically and mentally. The National Board of Taxation had major IT problems in 1989 – 1991 when taking the VAX MVS – Oracle – Cobol system into use. Once these were resolved, the upper management was not willing to make nothing more than changes that were needed to accommodate changes in tax laws.

The Y2K and especially introduction of Euro required a lot of resources. Changing the over ten years old Cobol applications was essential to be done firstly. Only from 2003 – 2004 the National Board of Taxation has been able to seriously plan eServices. However, the tax proposal system was developed during 1995 – 2000 and it meant a major change to individual tax payers.

The legacy systems are still the backbone of taxation. The eServices platform integrates Internet-based services to the legacy applications. Automating the taxation means that the work of tax-officers is moving towards analyzing and e.g. data mining tools are being developed for that work.

3. Input

3.1 Strategic objectives

The general strategy statement guiding the operating methods and IT systems is:

"We develop our operating methods and taxation and payment procedures by making wide use of the information from third parties and by introducing a wide range of interactive Web services. This enables us to reduce customers' need for services and provides support for self-service and the independent calculation and payment of taxes."[2]

In the operational and financial plan for 2008 – 2011[3] the strategy is operationalized as follows:

"*Taxation consists of automated processes and control of chosen cases. With totally automated process 70 % of tax payers are taxed. Cases to manual work requiring guidance and control are chosen by an analysis system.*"

Existing online systems have also other motives, like reducing the administrative burden of companies and to curb the informal economy.

Internet reporting to companies:

The strategic objective is to reduce the administrative burden one companies. The idea of the **TYVI** services is to integrate administrative reporting to the Human Resources Management and financial software packages used by companies and in this way to automate reporting to tax administration, insurance companies, pensions companies etc. Ministry of Finance has been monitoring usage of **TYVI** services. Tax administration has reported its own volumes on its web page.

Palkka.fi (wages.fi)

Administrative obligations for employers are cumbersome in Finland. The Union of Entrepreneurs in 1998 made a proposal of simplifying the payment and reporting of various employers' fees and contributions. As a result a ministerial working group was set up but initially it did not produce any decision. In 2001 Director General Mirjami Laitinen of National Board of Taxation was given the task to plan how to simplify the payment and reporting of employer's fees and contributions. Initially the task was limited to companies that occasionally employed people or very small ones (less than 5 employees).

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[2] Strategy of the Finnish Tax Administration, May 15, 2007 (from www.vero.fi on 11.7.2007)

[3] Verohallinnon toiminta- ja taloussuunnitelma 2008-2011 (from www.vero.fi on 11.7.2007)

Laitinen proposed an arrangement where Tax Administration together with insurance and pension companies builds a joint, a free of charge service in which a small employer could calculate wages, and the service automatically would produce all fees and contribution the employer must pay. In the same session of the system the payment of wages, taxes and fees to insurance and pension companies would also be possible, and the service would handle all reporting.

The proposal was supported from all stakeholders. Everyone accepted the complexity of the system and the possibility of initial cost impact it could have on economy. Since the payment of social contribution was very complex and opaque, it provided space for the underground economy.

Despite the initial support, the Palkka.fi service proved difficult to develop and it became finally operational only in 2005.

3.2 Political support

There has been full support to efforts trying to simplify taxation. The new pre-compiled tax return system would not have been possible without simplification of tax-laws in the early 1990s. A recent simplification was the abolition on wealth tax in 2006. The process has gone on because of strong governmental drives and leadership, despite opposition in the parliament to both changes in the Tax administration structure and to the reduction of the number of employees. The decision to close Tax offices raised questions in parliament and media.

3.3 Capital investments and operational costs

Due to the evolutionary nature of changes and of the embeddedness of the various digital solutions into the overall system, it was not possible to gather disaggregated data on ICT investments. For instance, the hardware platforms, server program licences (databases, middleware) and telecommunications are used across services and the accounting system in place does not yet enable assigning quota costs of these items to different groups of activities.

Total ICT costs of Tax Administration have been 54 – 67 M € in the last few years. In 2004 the total was 59 M € and in 2006 67 M €. In 2004 ICT costs were used as following:

- Personnel costs: 18,1 %
- Rental, leasing: 2,2 %
- Services: 64,7 %
- Data communication: 4,5 %

- Hardware: 6,6 %
- Software licences: 3,7 %
- Other: 0,2 %

All software development and maintenance is in Services. In year 2004 of the 38,4 M € used in services, 16 % (6,1 M €) was used in development of new applications.

More in general in 2006 the total operating expenses (including investments) of Tax administration were 337,6 M €. The following table shows how the operating costs were divided by type of expenditure.

Table 2 Tax Administration operating costs

Expenditure	Share, %	Share in €
Personnel	67 %	226,2 M €
IT	16 %	54,0 M €
Facilities	9 %	30,4 M €
Printing and mailing	4 %	13,5 M €
Other expenses	4%	13,5 M €

Costs are also divided by customer groups:

Table 2 Tax Administration operating costs by customers groups

Customer group	Share, %	Share in €
Private persons	35 %	118,16 M €
Companies and corporations	30 %	101,28 M €
Self-employed	17 %	57,39 M €
Tax receivers	12 %	40,51 M €
Farmers	6 %	20,25M €

3.4 Human resources and new skills

The strategy of the Finnish Tax Administration has been to buy services from the private sector. As part of this approach in 1998 the private/public company Tieto Karhu was established and used as a major outsources in order to release time of internal personnel to be devoted to development of new applications rather than maintenance of legacy applications. This choice was also made in light of the work load related to the Y2K and conversion to the Euro.

3.5 Technological solutions

Today tax online services to companies are the main group by volume and for technology it relies on external service providers. Each service provider has its own technology. In authentication various methods are used. The service providers have their own ID + password systems. In web based reporting, ID + password provided by Tax Administration can also be used. The eServices platform of Tax Administration is based on Microsoft .Net technology. The backend is Open VMS and Oracle RDBMS. In applications to individual citizens authentication is done with ID + passwords from banks[4] or the government provided[5] PKI certificates. Well over 99 % use bank ID + passwords.

4. Processes and Changes

4.1 Re-organisation

Tax administration has implemented and is continuing to implement organisational changes[6] that make it possible to better reap benefits from extended use of ICT. The measures are also needed to reach the goals set by Ministry of Finance.

Workload redistribution

Since the late 1990's, the Finnish Tax Administration has made internal arrangements to reallocate some of the workload and support functions from the Helsinki Area to units located in other parts of the country. One example of this is the nationwide telephone service number. The calls are directed to contact centres in the Regional Tax Offices in Savo-Karelia, Western and South-eastern Finland and have 150 full-time equivalent staff. The contact centres also handle Internet-based contacts.

In 2007 an amendment of the Act governing Tax Administration ensures that the National Board of Taxes will be empowered to independently reallocate assessment services of various

[4] The TUPAS method is a standard published by Federation of Finnish Financial Services. Ministry of Finance recommended to use TUPAS authentication in eGovernment services in 2002.

[5] The Population Register Centre started to provide PKI certificates on smart card based ID cards in 1999. See www.fineid.fi/vrk/fineid/home.nsf/pages/index_eng

[6] Annual report of The Finnish Tax Administration 2007, from www.vero.fi 11.7.2007

taxpayer groups to any region that can take up the workload. So far the law`s principle has been that decisions have to be made in the regional tax office of the area where the tax-payer lives. The overall objective is to relinquish today's two-stage structure within the organization, where the National Board of Taxes has a supervisory status in relation to the regional tax offices, and move toward the development of a single public agency. Then any future rearrangement of administrative and tax assessment tasks will be easier to carry out, because barriers between regional tax offices will no longer pose as an obstacle.

In February 2006, the new **Production Centre** was set up in Jyväskylä to handle the automated operations related to the assessment process. It is responsible for data collection, electronic transfer of data, and printing services. Similarly, several different IT support services were centralized in January 2007 by transferring the contracts of 53 full-time employees from regional offices to the National Board of Taxes. Now they work under the same management.

The **Financial Service Centre** recently established in Turku, became fully operational in 2006. It handles accounting and payment operations that concern the entire Tax Administration. The **HRM centre** located in Hämeenlinna is in charge of the workload relating to payroll accounting for the entire Tax Administration and the centre will have more human resources management tasks in the future.

Tax Administration has several ongoing projects aiming to centralize still more functions in such a way as to have just one, nationwide unit:

- The National Board of Taxes has agreed that collection and recovery would be reorganized within the administration. Four locations will handle tax collection and tax recovery operations will continue in the eight locations where they are being handled today.
- In September 2006, the final report was released concerning the change-around of the payment control function.
- In December 2006, the National Board of Taxes launched a project to discuss the establishment of a single centralized unit that would deal with the legal protection of tax recipients.

<u>Streamlining local tax offices around taxpayer groups</u>

According to plans spanning the period up to 2008, functions of all regional tax offices will be rearranged so as to serve specific groups of taxpayers: Corporate tax offices will be set up for the provision of services to corporate taxpayers, and separate units will handle individuals and self-employed persons. All tax offices will have dedicated corporate tax units within them by 1 January 2008. In 2006, three new corporate tax offices were set up, and at the beginning of 2007, similar organizational changes will have occurred in all regions.

Regarding individual and self-employed taxpayers, the current trend is towards the creation of larger local tax offices that can serve entire provinces of Finland. This means there will be only 23 local tax offices. Several mergers of adjacent local tax offices were being prepared during 2006. At the beginning of 2007 the number of offices will be 39.

4.2 Training

The pre-completed tax return causes changes in organisation of work and the yearly schedule of work in tax-offices. Automation means that tax-officers need new analytical skills to research the cases chosen to manual checking. The change has required training of all tax officers. All tax officers have been trained to use the online services. All must be able to answer questions from customers even when there are national service numbers.

4.3 Technological development

Tax administration had received tax-related data on tapes for a long period of time. The first online report started in 1997 with TYVI services provided by private brokers. Companies reporting tax matters interacted with these brokers who then transferred the data daily in batch to tax administration. No real changes were needed in Tax administration.

In 2004 the Tax administration launched a project on a platform for interactive services. The platform is supplied by Fujitsu Services. The platform is based on Microsoft .Net tools.

The first application to use this platform was the possibility to calculate tax rate and if necessary ask for a new tax rate for the rest of the year. The number of such transactions was approximately 1 million a year. Before the e-service was launched in 2006 it was possible to ask for a new rate by telephone or at a tax office.

Tax administration uses the platform in all coming e-services. It will also use it in receiving batch transfers from organisations supplying information for taxation. Measured in data volume most of this comes on tapes, CD-ROMs or DVDs. The amounts of data from e.g. banks are enormous but the transfer is only once a year at the end of January.

4.4 Take up strategy and communication

Tax administration did not promote VAT and employer reporting services until 2004. The possibility of online reporting was mentioned in tax guide documents and on the www.vero.fi web site. In 2004 the advertisement of the services started in order to increase the number of yearly employer reports through online channels. Campaigns in business media have been launched during November – December, ahead of obligatory reporting in January. The Palkka.fi (wages) service has been promoted in media. It is also promoted periodically on the front page of www.vero.fi.

4.5 Barriers and key enablers

Barriers

- Shortage of people capable to develop internal processes has been and still remains the main barrier. Projects are competing on same persons` time. Technical development is easy compared to development of internal processes.
- Strict privacy protection has delayed online services. E.g. it was feasible to develop online services for individuals only when trusted 3rd party authentication from banking sector was available.
- The complexity and level of integration grows as the aim is to automate processes. Automation requires more planning and implementation time compared to moving from paper to on-line channels.
- The problems in changing IT systems from mainframes to distributed VAX – Oracle environment in late 80's – early 90's made the top management very cautious on any risk on IT for 15 years. From the same background Ministry of Finance was happy as the systems worked and taxes were collected and did not want to push the National Board of Taxation towards developing online services.
- Decision making on IT development was difficult and time taking due power plays between the production centre, information management unit and taxation centres. The Production centre had most resources and power and it was not very interested in online services.
- Consolidation of computing resources, Y2K and especially conversion to euro took a lot of resources from development in 1996 – 2002. There was almost 10 years where development of new applications was almost in standstill.
- Tax administration had enough IT resources if measured by number of staff. However the staff was running VAX systems in regional tax offices and there were few people on development. To solve this, Ministry of Finance in 1998 formed a joint company – Tieto Karhu Oy – together with TietoEnator. The National Board of Taxation is the only customer of this company. Approximately 50 staff was moved from Tax administration to the company. It now has something like 200 staff and is responsible for maintaining and developing the legacy systems.

Key enablers

- The national basic registers are important sources of information and Tax administration uses them effectively to automate processes.
- Banks – all payments to and from Tax administration are done via banks. Before the TYVI services VAT and employer payment reporting was done via banks in the same transaction as payment. Banks authentication is used in online services.
- Legal framework does not require signatures or other physical measures that should be changed in online services. It is e.g. possible to give tax information on the phone. On the other hand privacy protection laws are very strict in Finland.
- Tax administration has co-operated with pensions and insurance companies in an open way and the Palkka.fi (wages) service is a result of that.
- Legislation has made it possible to get most information needed in taxation from sources like banks, social security, insurance companies etc.

5. Main Characteristics and Parameters of Online Service Delivery

5.1 Activities and volumes

The table in the following page shows numbers of various services in 2003 – 2006 and estimation for 2007. It is from January – April 2007 results report of the National Board of Taxation to then Ministry of Finance[7].

The total value of taxes collected by the Tax Administration in 2006 was € 55,5 billion. For unpaid taxes pending at the end of the year approximately 55 % are paid in the next year. The number of pending cases in the end of the year is not available. The number of debt recovery cases in the table is for the entire year. Value of unpaid taxes was € 3,09 billion in the end of 2006. The number of pre-completed tax returns (4,8 M) is high compared to Finland`s population of 5,3 M. The pre-completed return is sent not only to people with salary of pension but also to self-employed and farmers. They report on their business income as they send complementary information to Tax Administration.

[7] VUODEN 2007 VALTIOVARAINMINISTERIÖN JA VEROHALLITUKSEN VÄLINEN TULOSTA-VOITEASIAKIRJA AJALLA 1.1.–30.4.2007, Seurantaraportti 21.5.2007 (from www.vero.fi 11.7.2007)

Table 3 Volumes of services

Number of transactions	2003	2004	2005	2006	2007 estimate
Service					
Calls to service telephone numbers	1 626 443	1 936 048	1 727 550	1 763 900	1 750 000
Of which in Contact Centers	460 575	1 250 064	1 344 300	1 576 650	1 575 000
Other than service telephone numbers		3 000 000	3 000 000	3 000 000	
Answers to queries from www.vero.fi	10 075	12 246	11 793	13 229	
Changes of tax rate document	1 450 069	1 451 995	1 391 586	1 400 000	1 400 000
Of which in automatic process	0	0	0	3 000	98 000
Pre-completed tax returns[8]	3 093 985	3 127 638	3 140 358	4 800 000	4 876 000
Returned tax forms	866 316	875 739	803 482	1 529 799	1 500 000
Limited tax liable				70 000	70 000
Real estate tax invoices	1 808 151	1 836 290	1 873 490	1 911297	1 920 000
Companies using TYVI services	67 430	100 000	120 000	164 000	140 000
Control					
In regular taxation amount added to income, 1.000 €	1 634 988	1 298 373	1 119 206	969 554	
In regular taxation amount added to income, number of tax payers	141 327	139 351	156 460	136 456	
VAT orders to pay, 1.000 €	712 910	772 139	786 434	790 000	
VAT orders to pay, number of cases	395 045	399 506	400 622	400 000	
Employer fees to pay, 1.000 €	374 431	373 669	307 774	370 000	
Employer fees to pay, number of cases	269 679	266 679	217 242	270 000	
Number of tax controls	4 492	4 425	4 480	4 180	4 500
Number of control visits	1 293	1 424	1 655	1 459	1 600
Amount of tax added on basis of control visits, 1000 €	249 306	265 608	295 256	244 000	
Tax collection					
Tax liabilities of regular taxation, number	828 850	843 352	903 518	804 490	850 000
Tax returns of regular taxation, number	3 073 169	3 067 182	3 014 220	3 151 011	3 100 000
Number of tax payments (incoming)	11 488 353	11 383 600	11 296 852	11 339 693	11 300 000
Number of debt recovery cases	891 324	908 000	915 525	918 740	900 000

[8] The number of pre-completed tax returns is higher than number of tax-payers because a new proposal is produced in cases where the tax-payer provides more information after receiving the initial pre-completed tax return.

5.2 Services characteristics

Companies and other employers:

TYVI –services:

- Monthly and quarterly VAT reports
- Monthly withholding tax reports
- Yearly reports on wages paid and withholding on each individual who has been on the payroll during the tax year
- Dividends paid to individuals and other shareholders (by receiver)
- Company`s income tax declaration
- Other yearly reports
- Employees` individual tax rates (the employer sends a list of employee ID numbers and gets the tax rates)

Wages.fi:

- Calculation, payments and reports on wages paid to micro companies and individuals paying wages

Individual tax-payers

- Inform or change the bank account number (all payments like tax returns are deposited to bank accounts)
- Calculate your individual tax rate and in case of change to the earlier, obtain a new tax rate
- Yearly VAT reports of self-employed (artists, farmers...)
- Wages.fi services

On-line filing is still mostly voluntary to companies and employers. The yearly reporting on wages and withholding taxes in electronic form is mandatory to employers with 40 or more employees. The share of employers using electronic channels has risen so fast that there has not been a need to enforce this regulation. All payments to and from tax administration are done through bank accounts. About 4 years ago the Justice Chancellor demanded that cash payment of taxes without using banks shall be possible. The tax administration has made a contract with Customs. Around 50 customs offices accept cash payment of taxes. The use of this possibility is almost zero but it was required.

5.3 Service specific informations

TYVI

Tyvi services are a system enabling companies to transfer tax return information electronically to the tax authorities. Companies can transmit e.g. tax and information returns, Annual Notifications, Monthly Tax Returns, and Income Tax Returns of corporate taxpayers. In addition, you can use the Tyvi services to request and receive your employees´ withholding tax information separately for each individual employee. There are four TYVI Service Providers. They have somewhat different services available:

- Itella Information Logistics: http://www.tyvi.fi
- TeliaSonera Finland Oyj: https://tyvi.sonera.fi
- TietoEnator Oyj: http://www.rm.tietoenator.com/linkki
- WM-Data Oy: http://tyvi.wmdata.fi

The TYVI service providers offer several channels to regular reporting:

- Direct transfer from accounting or HRM software that is compatible with Tyvi
- File transfer (Service provider converts to TYVI formats)
- Web form input
- Accounting office does it as part of accounting / payroll service

Companies use ID`s and passwords from Tax administration, ID`s and passwords of banks or government provided PKI service to authenticate to TYVI service.

Palkka.fi (Wages.fi)

Palkka.fi is an Internet-service for small employers, regular or occasional. It is easy and efficient to calculate salaries and associated contributions and payments. The service is linked to banks` online payment systems and it automatically produced reports to receivers of employer fees. The service is free of charge to all small employers, households, businesses and associations. Palkka.fi is a joint e-service offered by insurance companies, the Tax Administration and the Social Insurance Institution. The National Board of Taxes is responsible for system maintenance and updates. Users mostly use bank provided user ID´s and passwords to use the service. It is also possible to authenticate with government PKI service. Network banking keys are in any case needed in payments that are integrated to the service.

Online modification of pre-compiled forms

The service is used when the tax payer wants to make sure that the withholding tax rate is close to the final one. The Tax Administration makes an estimate of next year`s (year 1) tax rate on information in December of year -1 based on taxation of year -2. This means that in many cases there have been changes that make the rate too high or low. In the service authentication is done with bank's ID or government provided PKI. Basic information of tax-payer is displayed from Tax administration database after authentication. The service shows tax rate effecting information known by Tax Administration. The user types in new estimates of income and other information where needed. After that the service shows new tax rates for the rest of the year. In case there is a change, the user can ask for a new tax rate document. The user can ask the rates to be sent directly to employer.

Companies and corporations information system

The Business Information System (BIS) is an information system jointly maintained by the National Board of Patents and Registration of Finland and the Finnish Tax Administration.

The system enables businesses and organisations to report their information in one single notification to both authorities. Businesses and organisations no longer need to report the same information on separate forms to the Trade Register (the Register of Foundations) and the registers of the Tax Administration. That can now be done in one single notification.

The BIS includes businesses and organisations entered in the

- Trade Register
- Register of Foundations
- VAT register
- Prepayment Register
- Employer Register or
- The Client Register of the Tax Administration.

The BIS also contains businesses and organisations that have filed a start-up notification, but have not yet been entered in the registers mentioned above. All businesses and organisations that are included in the BIS are given a Business Identity Code (Business ID). The Business ID code was taken into use in 2001. The service is a heavily used source of business partner information. E.g. a company who is paying for services shall make sure that the supplier is a registered employer. Before the BIS each supplier had to send a copy of a Tax Administration certificate proofing the registration at least once a year to each business partner it sent invoices. Once BIS was up, that practice was discontinued and the information on registration is easily available via the BIS.

5.4 Services sophistication level

TYVI

Stage 3 to Stage 4, personalisation depending on service provider and type of service used, call centres support

Palkka.fi (Wages.fi)

Stage 4 and personalisation + call centre support

Online modification of pre-compiled forms

Stage 4

Companies and corporations information system

Stage 2

5.5 Online services take up data

The number of reports via TYVI services is shown in the table below.

Exhibit 2 Volume of reporting using TYVI

Internet reporting from companies to Finnish Tax administration

Report	Year 2002	2003	2004	2005	2006 est.	Change from previous year, % 2003	2004	2005	2006
Monthly control reports on VAT and wages paid	547 000	754 000	1 218 730	1 963 000	2 500 000	38 %	62 %	61 %	27 %
Combined reports on VAT	5 200	5 200	8 700	15 000	25 000	0 %	67 %	72 %	67 %
Employers yearly report, number of wage earners reported	1 420 000	1 980 000	3 136 573	3 931 000	4 300 000	39 %	58 %	25 %	9 %
Individual tax-rates to companies HRM systems, number of employees	1 629 909	2 140 966	2 993 881	3 178 000	3 300 000	31 %	40 %	6 %	4 %
Company income tax reports	1 391	3 102	8 613	17 000	40 000	123 %	178 %	97 %	135 %
Number of companies using Internet reporting	50 000	60 000	100 000	140 000	180 000	20 %	67 %	40 %	29 %

The share of electronic reporting varies by type of report. The share is highest in Employers yearly report of which 96 % were filed electronically in 2006. The share of company income tax reports filed electronically is lowest.

The number of companies (including other employers and VAT) reporting with TYVI services is higher than number of regular employers (115 000) and lower than the number of VAT registered (240 000). Many groups like farmers report and pay VAT only once a year and these normally do by printing out a tax from their accounting system as the yearly profit – loss accounts are made.

The Palkka.fi (wages.fi) service started in January 2006. Since then (to early August 2007) 12 700 individual users and 7 100 companies have registered as users of the service. Currently 4 000 – 5 000 reports are produced monthly in the service. Due reports covering the previous year in January, the number of reports in January 2007 was over 11 000.
Online modification of pre-compiled forms started in 2007 and so far 130 000 rate documents have been ordered.

6. Existing Measurement System

Performance of Tax Administration is measured and followed in the results management process. The goals setting and measurement process in existing form started in early 90´s. Every year Ministry of Finance and National Board of Taxation agree on a number of goals and progress is measured.

6.1 Goals for measurement

The goals vary somewhat from year to year. For 2007 there are 9 goals of which the most efficient or effective oriented are the following:

1. Goal 1: Customer satisfaction

Customer satisfaction is measured by independent market research every 3 years. For 2007 the goals were 0,1 points higher than measured in 2004

2. Difference of withholding and final taxation

Every year the amount of returned taxes and taxes invoiced after the taxation is ready are compared to the total amount on final taxes. The sum of tax returns and back taxes should be maximum 10 % of total (it was 11 % in 2006).

3: Biggest companies are controlled effectively

At least 10 % of companies with turnover of more than 3,5 M € are to be controlled.

4: Tax litigation cases pending

At least 54 % on unpaid taxes from year before and the tax year should be collected during the year.

5 : Productivity

Productivity of work (transactions / person years) should rise at least 2 %.

6: Cutting need of personnel through automation

Rise in grade of automation should lower the need of work in taxation of persons by 85 man years and in companies` taxation 46 man years in tax year 2007.

7: Cutting need of personnel through online services

New online services reduce need of work in taxation by 20 man years in 2007.

6.2 User satisfaction: key Indicators and Metrics

Tax administration measures customer satisfaction with surveys done by independent market research companies. Customer satisfaction is one indicator in the results agreement between Ministry of Finance and National Board of Taxation. Customer satisfaction rates in 1995 – 2004 and goals for 2007 and 2008 are in the table below[9]:

Table 4 Customer Satisfaction Survey Results: 1995-2004

Customer satisfaction on scale 4 - 10	1995	1998	2001	2004	2007 goal	2010 goal
Private customers	7,3	7,7	7,8	7,9	8,0	8,0
Company customers	n / a	7,3	7,6	7,8	7,9	8,0

6.3 Efficiency indicator

Tax Administration measure yearly an indicator for overall productivity (tax transactions / number of man years). The budgeted goal has been around 2 % for many years. In 2006 the overall productivity improved by 3.2%.

7. Impact Indicators for comparison with the Greek Case

As foreseen in chapter 3 of Deliverable D.2 "Benchlearning Methodology and Data Gathering Template" the indicators selected and to be calculated for all the three involved cases studies are:

Efficiency Value Driver:

- Proxy estimate of Full Time Equivalent Gain in the form of: opportunity monetary value of the time saved for data entry by LTOs employees in the Greek case, and by the comparable equivalent for the two international cases.

[9] Source: Verohallinnon toiminta- ja taloussuunnitelma 2008 - 2011 (from www.vero.fi on 11.7.2007)

Effectiveness Value Driver:

- Reduction of waiting times for citizens and businesses to receive tax clearance in the Greek case and for a comparable equivalent for the International cases;
- Time and other resources (transportation, mailing, paying intermediaries) saved by citizens and businesses through online submission (same for all cases), in short "Reduction of administrative burden".

Also in the mentioned D.2 deliverable in chapter 4, with the needed adaptation to the specificities of this case.

In general the calculation of the indicators would have to focus on:

- Individual tax forms
- VAT declarations

Given, however, the peculiarities of the Finnish Tax Administration system the calculation of the efficiency indicator, as defined in deliverable D.2, is not possible or to state it better is not feasible. Individual tax returns, as explained, are pre-compiled and in 70% of cases are approved online by the tax-payers. In the remaining 30% where additional information is provided, this is also done on the online pre-populated forms. So the only way to calculate the indicators would be to compare data from 2006 with data before 1995 (which are not available) and the efficiency indicator, thus produced, would have a huge value with very little comparative usefulness. So for the efficiency indicator we adopted a different solution illustrated in the following paragraph.

7.1 Efficiency Indicator

In collaboration with the Finnish Tax Administration, using internal records and analysis of organisational process, we estimated the FTE gains that will be produced by the end of 2007 in comparison to 2006, as a result of increased automation and digitalisation.

The estimation for the end of 2007 is of FTE gains equal to 150 man years, which given the average cost of labour in the Finnish Tax Administration is worth about € 8 million. The man year gain can be broken down as follows:

- Rise in grade of automation in taxation of persons: reduction of need of personnel by 85 man years
- Rise in grade of automation in taxation of companies: reduction of need of personnel by 46 man years
- New online services reduce need of work in taxation by 20 man years.

The work completed for 2007 for this project was facilitated by ongoing work on calculation and forecast of FTE gains and reduction of personnel cost that the Finnish tax administration is pursuing. In fact, the Tax Administration estimates, in its financial plan for 2008 – 2011[10], that the total personnel in taxation of private person can be reduced by 14,6 % (330 person years). In taxation of corporations and companies the reduction will be 11,3 % (230 person years).

7.2 Effectiveness Indicators: reduction of administrative burden

Individual tax payer

The pre-completed tax return has released 4,8 M tax payers from collecting, keeping and reporting information on their income. Some 70 % of pre-completed tax return is efficient as it is. In the rest of the case the tax payer reports information that reduces (commuting costs, losses in sale of property) or increases taxable income (capital gains).

No estimation of time used in collecting information, counting and filling the forms in the old system, is available. The tax system was simplified by radically reducing the number of tax deductions which means that filling the tax form would be easier in 2007 than 1991 even without the pre-completed tax return.

The time saved by the pre-completed tax return could be estimated to be on average 2 to 3 hours per case which means in total 10 – 14 M hours a year. The value of the improved service to citizens is much higher than the actual minutes saved. The old tax declaration system was a stress factor to several.

Companies and corporations

A VAT paying company has at minimum the following monthly and yearly reports to compile and send to Tax Administration:

- Monthly reports on withholding tax and fees of employees (total sum)
- Monthly VAT reports
- Yearly report on withholding tax and fees on persons who have been on payroll (for each person)
- Tax declaration

There are also other reports like VAT in EU are (4 times a year) and dividends paid (by recipient).

[10] Source: Verohallinnon toiminta- ja taloussuunnitelma 2008-2011 (from www.vero.fi on 11.7.2007)

All these reports can be done electronically. Before the current eReporting (TYVI) system yearly reports on employees could be sent on tape or disk and the monthly VAT and withholding tax reports were done via banks as additional information in the payment of withheld taxes and VAT. This means that it is no totally paper based situation to compare with.

The monthly reports on VAT and withholding taxes are mostly compiled automatically in the financial and HRM applications and sent to Tax Administration through TYVI service providers. Also the yearly employee report is done in HRM application and sent through TYVI. The company tax declaration is mostly sent on hard copy but the tax declaration is printed from the financials application.

The pre-completed tax return did not increase administrative burden of companies as they have always been required to yearly report, on individual basis, the taxes and fees that have been withheld from wages paid.

7.3 Effectiveness Indicators: reduction of waiting times

The introduction of pre-completed tax return has changed the schedule of events in taxation for individual tax payers and reduced waiting times.

In the old system critical times for individual tax-payer were:

Last day of January: Tax declarations to tax administration

October: Tax report and calculation from Tax Administration

October-November: Checking the calculation / new information in / new report from Tax Administration (if needed)

1st week of December: Tax returns paid to bank accounts

1st payment of additional taxes (the second payment 1st week of February)

The final clearance and tax refund on average came after 1 year and 6 months.

In the pre-completed tax return the timing is:

April: Tax Administration sends the pre-completed tax declaration

April – mid June: Checking the calculation and new information to Tax Administration (if needed)

October: Tax report and calculation from Tax Administration in case there were changes to the pre-completed tax declaration

October- November: Checking the calculation / new information in / new report from Tax Administration (if needed)

1st week of December: Tax returns paid to bank accounts

1st payment of additional taxes (the second payment 1st week of February)

With the new system tax clearance is immediate (reduction of 6 months waiting times) and tax refund comes within three months, so there is a reduction of 7 months waiting time.

Summary conclusions

More general conclusions and considerations on the online provision of tax services will be made in deliverable D.7 where the results of all three cases will be considered. Below only some summary considerations are presented for the Finnish case.

The Finnish Tax administration has achieved noticeable efficiency gains and important effectiveness impacts on citizens, businesses, especially in terms of reduction of administrative burden.

These results have been exhaustively illustrated in the various parts of these reports, and will be here recalled only briefly and qualitatively.

Since the early 1990s the Finnish Tax Administration system has steadily improved productivity and efficiency reducing personnel by a considerable number and more FTE gains are expected for the period 2008-2011.

Its users' satisfaction measurement system shows that the services are fairly appreciated by all the constituencies and getting closer to the goal set in strategic plans.

The reduction of waiting time due to the ICT enabled automated and self-induced approach has been considerable, and even more so has been the reduction of administrative burden. The Finnish Tax Administration system is outsourcing non core activities and is firmly moving and continuing its transformation to become a professional organisation with a strong focus on its core business only.

This was achieved, however, certainly not as a result of the online provision of services only, but has been the results of a gradual and evolutionary process entailing a mix of legislative, institutional, organisational and technological efforts and investments, as well as concertation and collaboration of the government with all interested stakeholders (companies, banks, insurance funds). This process occurred despite of the opposition in the Parliament as a result of strong government leadership.

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