



The Finnish Tax Administration | Annual report 2009

# From administering taxation to managing tax risks

**The Finnish Tax Administration's operating strategy was renewed** in 2009. Significant changes in the Tax Administration's operating environment made it necessary to update the strategy. A particular aim was to find new focuses for developing operations. Along the way, the updating work expanded into a comprehensive reform of the strategy.

The majority of Tax Administration resources have been focused on individual taxation decisions. In its new strategy, the purpose of Tax Administration operations is defined as carrying out taxation so that taxes are collected as fully as possible.

The Tax Administration will gradually shift its focus from administering taxation to managing tax risks. Customers will be grouped by different criteria so that the taxation risks associated with similar customers can be better identified and managed. The aim is to encourage customers to act correctly and on their own initiative.

The new strategy is also visible in this annual report. The issues discussed are grouped according to how they help us to achieve **the strategic objectives of the Finnish Tax Administration.**

- We will ensure the tax revenue by providing proactive guidance and good service as well as conducting credible tax control.
- Our customers can contribute to their tax issues with as little cost and inconvenience as possible.
- Our operations are both productive and economic.
- Our organisation has innovative potential.

## **MISSION:**

Our core task is to carry out the duties assigned to us by society consistently and successfully. We operate in such a way that customers can and are willing to contribute to their tax issues correctly and on their own initiative. We provide targeted and convenient services that make it easy for our customers to deal with us and minimise their costs. The systematic management of tax risks enhances the accrual of tax revenue.

## **BUSINESS IDEA:**

The right tax at the right time

## **VALUES:**

Fairness  
Reliability  
High standard of professionalism

# Annual report 2009

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**”The Tax Administration performed its work with nearly 600 full-time equivalent employees less than in 2005. Productivity improved by 4.8% last year.”**



## Director general's review

In many ways, 2009 was a challenging year for the Tax Administration. The recession that began at the end of 2008 deepened last year, and this was visible as a significant decrease in the accrual of tax revenue. Likewise, the recession also increased the Tax Administration's workload in many ways. Prepaid taxes were cut at a record pace, more payment plans were drawn up, applications for bankruptcy increased and the need for guidance rose. The Tax Administration's financial and staff planning also required more work than usual.

### **Tax Administration secures the accrual of tax revenue**

The ups and downs of the international or domestic economy are something that the Tax Administration cannot control. However, the Tax Administration can, through its own operations, eliminate or reduce the risks associated with accrual of tax revenue in both good and bad times. We can use international research methods to calculate that the difference between legal tax accrual and actual tax accrual, in other words the tax gap is approximately EUR 4–6 billion in Finland. The tax gap is not just a matter of underground economy but includes all unpaid taxes. For this reason, the Tax Administration's new operating strategy describes the targets and methods that are aimed at halting growth in the gap or even reducing it.

One way to prevent a tax gap is to increase customers' desire to pay their taxes. This is greatly influenced by the type

of control and convenience of service that the Tax Administration can offer its customers.

The tax account that was launched at the beginning of 2010 makes it easier for business taxpayers to file and pay taxes. The virtual tax account service allows customers to monitor the balance and transactions in their tax account and make statutory filings.

The pre-completed tax return form has significantly reduced individual taxpayers' need for service. As a result of information available from third party declarations, 70% of customers no longer have to revise their tax return. In 2009, information on gains from securities trading was also available for tax returns, thus making it even easier for customers to handle their obligations.

In accordance with the Tax Administration goals, individual taxpayers have increasingly begun to utilise electronic serv-

ices. Approximately 30% of tax card changes were handled in the online service last year, and more than 250,000 tax returns were filed via the Tax Return Online service.

Electronic services for municipalities improved with the launch of the Tax Recipients' Online Service as part of the Vero.fi website. The service allows municipalities to monitor the amount of taxes to be remitted to them and, for example, make different types of annual comparisons.

Various control measures ensure that taxpayers who fail to handle their obligations are brought into the scope of taxation. The range of measures extends from the use of various types of comparison information to special control measures.

Last year saw the completion of a control project that affected nearly 400 non-profit associations and foundations. The project revealed a great need for control and guidance, which was one of the main outcomes of the project. Various authorities are cooperating on Raksa, a project for the construction sector that will continue until 2011 and which has already revealed a large amount of underground economy and neglect of statutory contributions.

We must be able to assess analyse tax risks in a more systematic manner, and prevent them in advance. With this in mind, the Tax Administration continued to build an analysis system.

The activities of companies and individuals are not tied to the borders of countries. Thus, all taxation-related operations have to take the impacts of internationalisation into consideration. The Finnish Tax Administration is an active participant in EU cooperation and in all important international taxation organisations. Matters related to exchanging information were key themes at meetings last year. A memorandum signed in conjunction with the visit of the director general of the Russian Tax Administration will lead to even closer cooperation with Russia in the future.

### **Productivity work and a strict budget**

In practice, improving productivity and economy means handling taxation work with a smaller number of personnel. Measured in terms of full-time equivalent employees, the Tax Administration performed its work with nearly 600 full-time equivalent employees less than in 2005. Productivity improved by 4.8% last year. Factors such as growth in the number of customers must be taken into account when examining productivity. For example, nearly 108,000 customers had limited tax liability last year, representing an increase of 4% over the previous year.

Good productivity development is made possible by extensive exploitation of information technology. The Tax Administration is streamlining its taxation processes, unifying work methods and automating work. The challenge in carrying out these efficiency measures has been the complicated tax legislation.

We are developing the Tax Administration organisation by establishing national functions arranged by customer group. In addition to other strategic targets, the organisational change also promotes productivity goals. National units allow for tax decisions to be made flexibly where there is sufficient skilled staff.

The state sector is seeking productivity benefits by centralising support functions. Last May, the Tax Administration transferred its financial administration services to the State Treasury service centre, and personnel administration services will follow in 2010.

The Tax Administration's financial situation was very difficult last year. The funds allocated in the central government budget were not sufficient to cover the net costs of EUR 389.7 million. The excess spending was covered by using savings from previous years and by exercising strict control of spending, which the units and employees committed to in an admirable manner. Including auxiliary costs, voluntary exchanges of holiday pay for time off produced more than EUR 3.2 million in savings, which is approximately one million more than in the previous year. Development projects were also prioritised very strictly.

### **The Tax Administration takes responsibility for the environment**

In 2008, the Tax Administration became the first public sector organisation to join the WWF's Green Office programme. Audits performed in the autumn showed that the programme has been successfully implemented. All Tax Administration offices have been part of the Green Office programme since the beginning of 2010. The introduction of video conference equipment and other technology to support remote meetings has reduced the amount of working time and costs used for business travel. This allowed the offices to cut their costs by 15%. At the same time, the Tax Administration has contributed to reducing traffic emissions.

### **Staff members involved in developing activities**

The results of Tax Administration activities can be attributed to the work of a competent and committed staff. Routine work has been eliminated and the tasks are now more focused on expert work in taxation and support functions. The employees participate in developing the functions, which adds to the challenge of the work and increases commitment.

Employees need to have a good state of well-being in order to be enthusiastic about their work. The results of annual job satisfaction survey improved once again in 2009. The highest scores were given in the area of job content and challenge. Work atmosphere and cooperation also received good scores in the Tax Administration. The Tax Administration scores for all main areas were better than the scores in the rest of the public service.

Despite its many challenges, 2009 was a good year. For this, I would like to thank our personnel and union stewards and all of the Tax Administration's customers and partners.



Mirjami Laitinen



## WE SECURE THE ACCRUAL OF TAX REVENUE

We eliminate or reduce the risks that threaten the tax revenue by affecting customers so that as few of them as possible are not paying their taxes. We provide our customers with proactive guidance and good service, and guarantee consistency of taxation. This way we promote a positive attitude towards tax obligations. Non-compliant customers are more likely to be selected as targets of control measures.

# The Tax Administration collects funds for society

**Tax revenue is the public sector's most significant source of income. Preventive guidance, good service and credible tax control secure the accrual of tax revenue.**

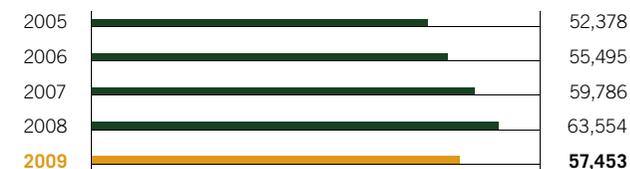
The Tax Administration collects the majority of Finnish taxes and tax-like charges. The Tax Administration passes on the tax revenue it collects to tax recipients that maintain public services: the central government of Finland, local government, the Social Insurance Institution (Kela), parishes and forestry associations.

## Poor financial situation decreased gross tax revenue

The Tax Administration collected EUR 57.5 billion in gross tax revenue in 2009. As a result of the rapid deterioration of the financial situation, this was EUR 6.1 billion (9.6%) less than in the previous year. The situation can be considered quite exceptional, because over the past ten years gross tax revenue has only decreased in 2002 and 2003, and even then the changes were noticeably smaller in nature.

Accrual of value-added tax fell by 8.5%. The reasons for this shrinkage included a drop in private consumption. Employers' contributions totalled EUR 25.7 billion, or 3.4% less than in 2008. Withholding tax decreased by 2.1%. This figure was somewhat higher than that for wages paid, which decreased by 0.7%, and can in part be attributed to the progressive nature of central government income tax. The rate for national pension contribution payments was reduced by 0.801 percentage points at the beginning of April. As a result, social security contribu-

GROSS TAX REVENUE 2005–2009, EUR million



tions paid by employers dropped by 15.8%. The contribution will be abolished completely at the beginning of 2010.

Accrual of debited taxes in 2009 was EUR 9.4 billion, which is 20% lower than in 2008. Prepayment of corporate tax, the revenue from which fell by 33.1% or nearly two billion euros, had a particularly strong impact on this figure.

## Tax remittances to tax recipients decreased

In 2009 a total of EUR 44.6 billion in tax revenue was remitted to tax recipients, representing a decrease of 8.1%.

The central government's share was EUR 22.3 billion, down 14.1% on the previous year. The biggest reason for the sharp decline in amounts remitted to the central government was the slump in corporate tax revenue caused by the recession. Corporate income tax decreased by more than EUR 2.5 billion, and as a result the corporate income tax remitted to the central government was less than half of that in the previous year (-55.1%). The drop in corporate income tax is particularly reflected in remittances to the central government, because the share of corporate income tax received by the central government is reduced by 10 percentage points in favour of municipalities and religious communities, i.e. parishes, in 2009–2011. The income

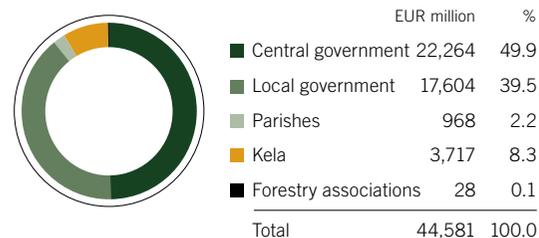
GROSS TAX REVENUE 2006–2009, EUR million

	2006	2007	2008	2009	Change (%)
<b>Unprompted taxes</b>					
Employers' contributions and other unprompted taxes	28,181	30,149	32,019	29,967	-6.4
VAT	17,036	18,104	19,739	18,053	-8.5
<b>Debited taxes</b>	10,278	11,532	11,795	9,433	-20
<b>Revenue total</b>	55,495	59,786	63,554	57,453	-9.6

#### REMITTANCES OF TAX REVENUES, 2005–2009, EUR million



#### BREAKDOWN OF TAX REMITTANCES BY TAX RECIPIENT, 2009



tax on earned and capital income received by the central government also fell noticeably by EUR 1.9 billion (-20.9%).

In contrast, VAT revenue increased by more than one billion euros to EUR 10.7 billion (+11.6%). However, this can also be attributed to the economic decline: gross VAT revenue fell by EUR 1.7 billion, but a decrease in exports meant that VAT refunds fell even more, by EUR 2.8 billion (-24.9%).

Local government, i.e. Finnish cities and municipalities, received EUR 17.6 billion (+0.4%) in tax remittances. This growth can be attributed to an increase in the weighted average

municipal tax rate from 18.59 to 18.98 percent and to a proportional change in corporate income tax that favours municipalities. Municipal tax revenue increased (+2.3%), but the corporate tax revenue decreased despite the increased proportional share (-21.9%). Real estate tax revenue increased to EUR 954 million (+6.6%).

Religious communities, i.e. parishes, received EUR 968 billion (-2.2 %) in tax remittances. Tax-like charges remitted to the Social Insurance Institution (Kela) amounted to EUR 3,717 million (-8%).

#### AMOUNTS REMITTED TO TAX RECIPIENTS, 2009

Tax recipient	EUR million	Change (%)
<b>Central government</b>	<b>22,264</b>	<b>-14.1</b>
Income tax on earned and capital income + tax at source	7,188	-20.9
Corporate income tax	2,207	-55.1
Value-added tax	10,671	+11.6
Other state taxes	2,197	-6.2
<b>Local government</b>	<b>17,604</b>	<b>+0.4</b>
Municipal tax	15,432	+2.3
Corporate income tax	1,197	-21.9
Real estate tax	974	+6.6
<b>Parishes</b>	<b>968</b>	<b>-2.2</b>
Church tax	873	+0.5
Corporate income tax	95	-21.4
<b>Kela</b>	<b>3,717</b>	<b>-8.0</b>
Health insurance	1,624	+5.1
Employers' social security	2,093	-16.1
<b>Forestry fees</b>	<b>28</b>	<b>+3.5</b>
<b>Total taxes and tax-like charges</b>	<b>44,581</b>	<b>-8.1</b>

#### Tax refunds are approximately one quarter of gross tax revenue

Every year the Tax Administration refunds excess tax equivalent to approximately one quarter of the gross tax revenue. In 2009, tax refunds were slightly more than EUR 13 billion, with VAT accounting for EUR 8.6 billion of that sum. The largest VAT refunds are generally associated with export activities in which the customer is entitled to receive a refund of the tax included in purchases subject to tax. A second large refund category is withholding tax returns, which amounted to EUR 2.7 billion. Individual taxpayers accounted for about EUR 2.2 billion of this sum. In December 2009, withholding tax refunds for the tax year 2008 were paid to approximately 3.4 million individual taxpayers.

During the year, the Tax Administration also paid refunds related to car taxation. This was an exceptional situation. The refunded tax was a tax similar to VAT charged on top of the separate car tax, also known as non-VAT. The Tax Administration delivered the refund decisions and paid the refunds on behalf of Finnish Customs because the Tax Administration had the necessary information systems for this task. Refunds were paid to those people whose bank account information was available to

the Tax Administration. The Tax Administration handled about 47,000 refunds, for a total value of EUR 35 million.

The Tax Administration also handles refunds of a second tax levied by Customs, and this involves refunds of an excise tax on the use of energy products. The refunds apply to professional farming and forestry taxpayers who have applied for the right to receive a refund on the excise tax paid on the fuel oil and electricity used for agricultural purposes. The first refunds were paid in 2008, when taxes from the tax years 2005–2007 were refunded. More than EUR 12 million in tax from the tax year 2008 was returned to 38,500 farming and forestry taxpayers in 2009.

### Tax arrears EUR 3.6 billion at the end of 2009

The total amount of unpaid taxes – tax arrears – was EUR 3.6 billion at the end of 2009. This was 12.9% or EUR 409 million more than in the previous year. Arrears for income tax and prepaid tax increased by EUR 207 million, and those for VAT by EUR 125 million. Arrears for withholding tax and employers' contributions grew by EUR 77 million.

Individual taxpayers accounted for 32% of tax arrears. Most of these consisted of unpaid income taxes and amounted to EUR 710 million. Correspondingly, almost three-quarters of overdue and unpaid amounts owed by corporate and business taxpayers consisted of VAT and so-called employers' contributions (withholding tax and employers' social security contributions), amounting to EUR 1,726 million altogether.

A total of EUR 1,476 million in tax arrears were collected in 2009, EUR 94 million less than in the previous year. Out of this, EUR 1,225 million, or 83%, was recovered as a result of Tax Administration efforts. Enforcement authorities recovered a further EUR 251 million.

### RETURNS OF NON-VAT ON CAR TAX HANDLED BY THE TAX ADMINISTRATION, 2009

	Number	EUR million
Accepted for processing	46,927	35.0
Tax receipts	3,415	1.7
Paid	43,508	33.3

### REFUNDS OF ENERGY TAX HANDLED BY THE TAX ADMINISTRATION, 2005–2008

Taxable year	Number	EUR million
2005	34,560	8.8
2006	38,323	10.7
2007	37,614	11.1
<b>2008</b>	<b>38,426</b>	<b>12.3</b>

In 2009 18,865 tax payment arrangements were drawn up, which applied to a total of EUR 252 million. Funds totalling EUR 149 were collected through such payment arrangements, which is 38% more than in the previous year.

### AUTOMATED PROCESSES AND CASE-SPECIFIC CONTROL

Individual taxation is primarily based on information that the Tax Administration collects electronically from third party declarations, such as employers and banks. For example, in 2009 third parties provided information on 4.9 million wage payments and 16 million sales of securities. Based on information gained from third party declarations, the Tax Administration sends individual taxpayers a pre-completed tax return form so that they can check the correctness of the information and make changes as

### TAX REFUNDS, 2005–2009

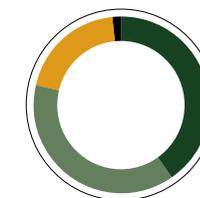
	EUR million	Number
2005	10,486	3,571,438
2006	11,888	4,539,274
2007	12,993	3,902,254
2008	15,241	4,079,984
<b>2009</b>	<b>13,047</b>	<b>4,076,879</b>

### TAX ARREARS 2005–2009, EUR million

2005	2,991
2006	3,093
2007	3,076
2008	3,166
<b>2009</b>	<b>3,575</b>

### TAX ARREARS BY TAX TYPE, 2009

	EUR million	%
Income tax including preliminary tax	1,447	40.5
VAT	1,369	38.3
Withholding tax and employers' contributions	704	19.7
Other taxes	55	1.5
<b>Total</b>	<b>3,575</b>	<b>100.0</b>



### NUMBER OF TAX APPEALS TO ADMINISTRATIVE COURTS CONCERNING INCOME TAX AND VAT, 2006–2009



One of the measures of the quality of tax assessment is the number of tax appeals to administrative courts. In 2009, administrative courts received 2,212 appeals associated with income tax and 477 appeals regarding VAT.

required. Employers handle payment of taxes by withholding tax from employees' wages and passing them on to the Tax Administration.

Tax assessment for business taxpayers is carried out on the basis of information provided by the customer. However, comparative data is obtained from third party declarations. The Tax Administration compares information from businesses and third party declarations and administers the customer's taxation decision. The businesses are also responsible for paying their taxes to Tax Administration accounts.

#### Basic tax control mechanism maintains credibility and secures tax revenue

Basic tax control comprises the combining and comparing of information that affects tax assessment from various sources. This control takes place at all stages of the tax process and targets all the Tax Administration's customers.

Part of basic tax control involves the examination of all cases by computer in the tax control phase. Some of these cases are

selected for processing by a tax officer. National selection criteria are used in this process. Computer automation and case selection ensure that tax control can be targeted at the right issues to ensure the fairness of tax assessment and the accrual of tax income.

Basic tax control enables the Tax Administration to make increases and decreases to customers' taxable income. These adjustments may result from the Tax Administration discovering information deviating from the information on income provided by the client.

#### Safety and security work targets disturbance-free taxation

The target of the Tax Administration's safety and security development is to ensure disturbance-free, properly functioning taxation. From the viewpoint of taxation, the most important safety and security sectors are the protection of employees and customers, information security for taxation details and planning for contingencies and continuity.

In 2009, special attention was paid to improving information security related to taxation systems. Information security requirements and risk management were clarified with regard to systems development of taxation.

Management of security risks was a particular object of development by means of the Kaikuluotain (sonar) method and comprehensive security auditing performed by an external expert. The goal was to ensure that measures for safety and security development are targeted correctly and in the right proportions.

A security development project funded by the Finnish Funding Agency for Technology and Innovation (Tekes) also began in the Tax Administration. The project will be implemented in

### BASIC TAX CONTROL STATISTICS, EUR million

	Tax year 2005	Tax year 2006	Tax year 2007	Tax year 2008
<b>Adjustments in taxation</b>				
<b>Corporations</b>				
added to income	602	680	653	<b>903</b>
deducted from income	102	54	79	<b>172</b>
<b>Business consortia</b>				
added to income	13	11	14	<b>35</b>
deducted from income	0.8	0.4	1.2	<b>0.8</b>
<b>Self-employed</b>				
added to income	62	51	65	<b>69</b>
deducted from income	5	4	5	<b>5</b>
<b>Farming and forestry</b>				
added to income	27	33	34	<b>37</b>
deducted from income	2	3	4	<b>4</b>
<b>Wage-earners, pensioners</b>				
added to income	263	241	268	<b>294</b>
deducted from income	14	15	42	<b>23</b>
<b>Securities trading (physical persons)</b>				
capital gain added	75	86	119	<b>45</b>
capital gain deducted	12	12	14	<b>8</b>
<b>Adjustments in taxation</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>VAT</b>				
Total debited amounts	821	816	868	<b>1,014</b>
<b>Employers' contributions</b>				
Total debited amounts	416	440	472	<b>415*</b>

\*Only includes monthly control.

cooperation with Kela, and is aimed at improving the quality of customer services processes. Both the consistency and security of customer service situations will be improved. The project will continue in 2010.

### **SPECIAL TAX CONTROL COMBATS FINANCIAL CRIME AND UNDERGROUND ECONOMY**

Special tax control complements the basic tax control carried out on all customers. Special tax control, such as field tax audits conducted on the business premises, only applies to selected taxpayers.

#### **Project for non-profit associations and foundations concluded**

The non-profit association and foundation project run by the National Board of Taxes' Tax Auditing Unit started at the beginning of 2006. The target of the project was to assess the need for and the fiscal importance of tax control for associations and foundations. All of the regional tax offices took part in the project. The project was originally intended to last for three years, but its excellent results led to a one-year extension until 31 December 2009.

A total of 371 associations and foundations were audited in the project. Also included in the project were limited companies that were linked to the associations and foundations. Based on these audits, about EUR 22 million of business income was proposed for additional tax debiting and EUR 3.5 million for payment of VAT. Approximately EUR 6.8 million in wages had been paid without collecting withholding tax. Offences were reported in 16 cases.

During the project implementation phase, tax control for the same taxpayer group was also improved in basic control. New work method instructions and a new tax return form were taken into use, customer registration was improved, and taxation of non-profit associations and foundations was centralised in the Eastern Finland and Western Finland regional tax offices.

#### **Improved control of internal trading in the EU**

The National Board of Taxes' Tax Auditing Unit carried out a project aimed at improving the effectiveness of control regarding EU internal trading in 2006–2009. The project was implemented in cooperation between basic and special tax control and also utilised more extensive cooperation among authorities.

The project examined the possibilities to improve the quality of EU internal trading notification information and to make international data exchange more efficient. The goal was to utilise international data exchange, especially the VIES system, to identify taxpayers that require guidance and control and abusers of the internal trading system. Abuses related to trade in imported vehicles, and their subsequent exposure and prevention became a special focus during the project.

Based on the experience gained from the project, the Tax Administration has been able to develop a risk analysis for EU internal trading and the related domestic trading. As a result, new control methods have been created for basic and special control. The project helped to improve the efficiency of data exchange and inter-authority cooperation in Finland and internationally.

#### **RAKSA project audits construction worksites**

Together with other authorities, the Tax Administration began the RAKSA tax control project for the construction sector in 2008. The project will last until 2011, and the participants include, among others, Confederation of Finnish Construction Industries RT, The Construction Trade Union, Kela, The Finnish Centre for Pensions, Finnish Immigration Service, labour protection districts, police, prosecuting authorities and enforcement authorities.

The goal of the project has been to combat underground economy, develop control of foreign labour and implement new control methods. In 2009, the project also focused on building repair and reconstruction. A particular focus of control is housing companies that have received cyclical assistance for repair and renovation measures.

#### **Virke project: authorities' cooperation against underground economy**

The Tax Administration has taken part in the Ministry of Finance's Virke project, one of the tasks of which is to keep abreast of the situation in the underground economy and financial crime. In 2009, 12 full-time Tax Administration officials participated in Virke project work.

During the year, Virke published five situational reports on financial crime. These reports addressed current phenomena in the areas of financial crime and underground economy, and how to prevent them. Examples of the activities include a report on the links between Finnish individuals and Estonian companies, a report on the impacts of the financial crisis on preventing underground economy and financial crime, and an update study on the amount of underground economy in the accommodation and food sector.

# CASE

## JOINT CONTROL VISITS BY LABOUR PROTECTION AUTHORITIES AND TAX AUDITORS



**“The labour protection district’s task is to determine whether the construction site observes the Act on the Contractor’s Obligations and Liability when Work is Contracted Out. We also clarify contract hierarchies and the employers of workers met on the worksite.”**

Tax auditors from the Tax Administration and labour protection authorities have been making joint visits to construction sites since the beginning of 2008. During the site visits, the authorities work simultaneously but within the scope of their respective legislation and in their respective roles.

“The labour protection district’s task is to determine whether the construction site observes the Act on the Contractor’s Obligations and Liability when Work is Contracted Out. We also clarify contract hierarchies and the employers of workers met on the worksite,” says Kimmo Tukiainen, an inspector with the Uusimaa labour protection district. “Our supervision of foreigners ensures that the grounds for foreign employees’ right to work and the key terms of their employment relationship are in order.”

On the other hand, tax auditors determine whether the registration information and other

public information for the companies working at the worksite are up to date and correct. They also examine contracting chains.

Comparative data obtained through stakeholder cooperation and worksite supervision in the construction sector is used to determine whether companies and individuals working at a construction worksite report and pay their taxes on time and in the proper amounts.

The experience gained from this cooperation has been encouraging. Control has become more effective and the interaction has been beneficial in terms of developing the work methods of both authorities. The construction sector has also taken a positive attitude towards worksite control visits by the authorities. The construction site visits are an important control mode, and also represent collaboration between clients, developers and general contractors. ■

### Construction of analysis system to support risk management in progress

The Tax Administration's goal is to adapt its activities to correspond to risk management thinking. An analysis system to support this goal is now under construction. The first phase of the system is expected to be ready for implementation at the end of 2010. To begin with, the system will be used to examine tax risks and select targets for tax audits. Later on elements to support basic control and management reporting will be added.

The analysis system has two main tasks. First, it gathers the information needed for analysis in a form that makes it possible to detect customers' anomalous tax behaviour. The analysis system also has to provide effective tools for making observations.

The analysis project will involve building a data warehouse that includes tax information gathered by the Tax Administration and comparative data collected from third party declarations. A large amount of different types of derived and accumulated information from a period of several years will also be produced for the database. The information in the data warehouse can be utilised to identify risks in a more efficient, systematic and consistent manner, find customers that belong to the risk group, and to analyse and monitor the results of control. A reporting program will be added to the database, thus allowing analysts to produce reports by themselves. Other personnel will be provided with prepared reports.

### More effective international control cooperation

Development in the area of information systems and control mechanisms means that international data exchange and control cooperation is steadily becoming more effective and faster. During 2009, the Tax Administration continued to develop its methods in a more flexible and faster direction. Operative international data exchange and tax control at the Tax Administration has been implemented in the regional units, close to the people that need the information.

Data exchange between EU countries now occurs by means of electronic forms, and international simultaneous control activities have also been improved. In 2009, the directors of the Russian and Finnish tax administrations signed an agreement which involves examining the opportunities to improve Finnish and Russian cooperation, particularly in the area of automatic data exchange.

Several measures have been initiated to combat international tax fraud, and these measures are aimed at improving the effectiveness of national and international cooperation and methods. The Tax Administration has already responded to new fraud phenomena in cooperation with the authorities in the respective sectors.

### TAX CONTROL MEASURES, 2007–2009 kappaletta

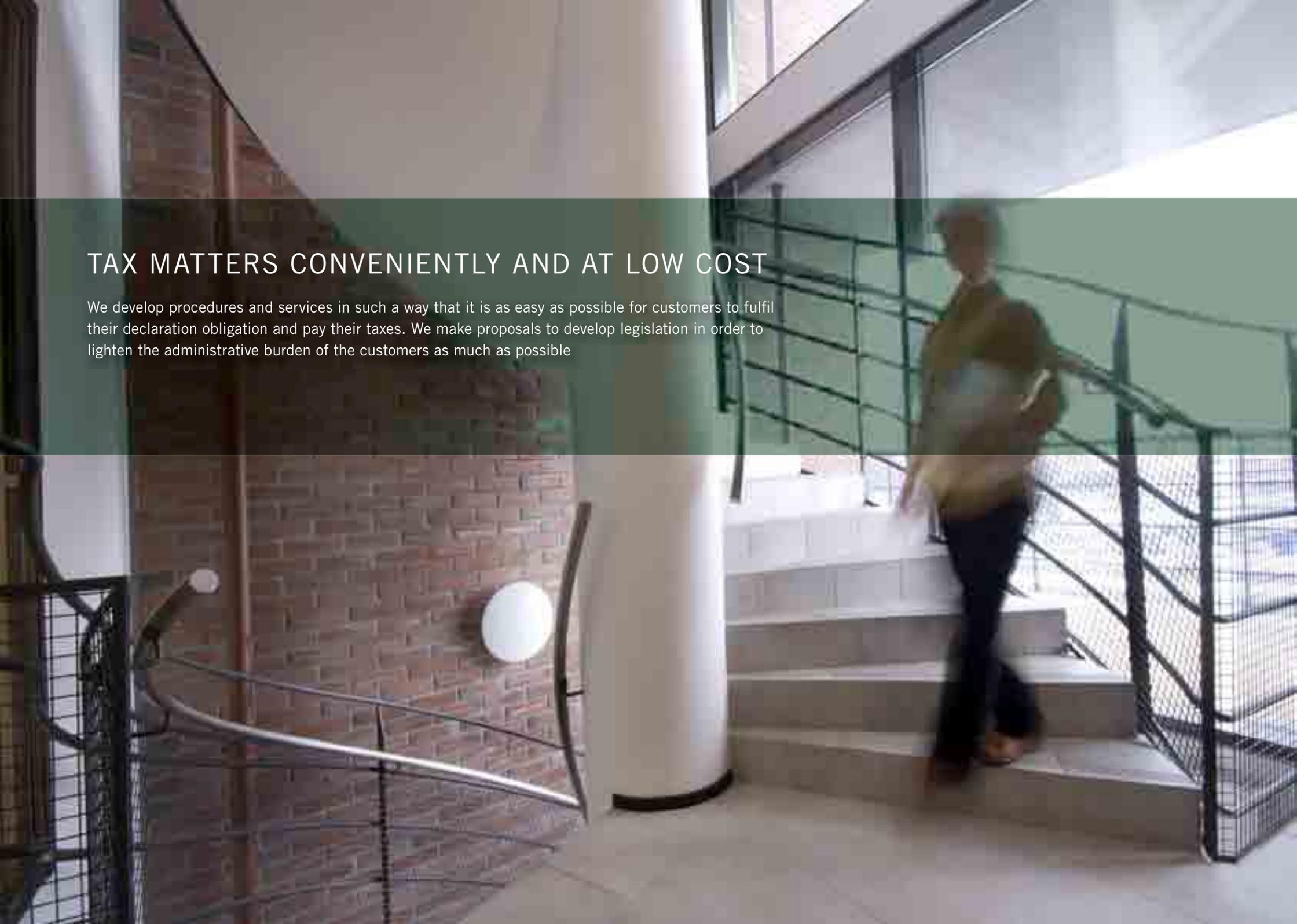
	2007	2008	2009
<b>Regional tax offices</b>			
Tax audits	2,793	2,726	<b>2,800</b>
Tax control visits	429	230	<b>249</b>
Comparison data audits	78	82	<b>73</b>
<b>Local tax offices</b>			
Tax audits	999	954	<b>697</b>
Tax control visits	859	857	<b>723</b>
Comparison data audits	9	8	<b>9</b>
<b>Totals</b>	<b>5,167</b>	<b>4,857</b>	<b>4,551</b>

### TAX AUDITS (incl. in the previous figures) TO COMBAT THE UNDERGROUND ECONOMY, 2007–2009

	2007	2008	2009
<b>Uncovered underground companies</b>	807	821	<b>802</b>
<b>Underground economy, EUR million</b>			
- undeclared payroll	48	56	<b>51</b>
- undeclared sales	48	49	<b>52</b>
- constructive dividend to company	6	5	<b>11</b>
- constructive dividend to owner	32	24	<b>37</b>
<b>Additional tax to be debited, EUR million</b>			
- Withholding tax	17	21	<b>19</b>
- VAT	22	22	<b>20</b>
- Direct tax	19	24	<b>30</b>
<b>Invoice falsification</b>			
- number of invoices	3,353	5,260	<b>6,522</b>
- value of invoices, EUR million	26	44	<b>38</b>

### AMOUNTS DEBITED ON THE BASIS OF TAX AUDITS, 2007–2008, EUR million

	2007	2008	2009
Direct tax	156	168	<b>193</b>
Indirect tax	56	68	<b>58</b>
Withholding tax	54	52	<b>49</b>
<b>Total</b>	<b>266</b>	<b>288</b>	<b>300</b>

A photograph of a person walking down a modern staircase. The staircase has a brick wall on the left and a white pillar. The person is wearing a dark jacket and dark pants. The background is a bright, modern building with large windows.

## TAX MATTERS CONVENIENTLY AND AT LOW COST

We develop procedures and services in such a way that it is as easy as possible for customers to fulfil their declaration obligation and pay their taxes. We make proposals to develop legislation in order to lighten the administrative burden of the customers as much as possible

# Tax advice by telephone and online

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**The aim of the Tax Administration is to reduce the office visits and develop telephone and online services that are not affected by the number or location of offices.**

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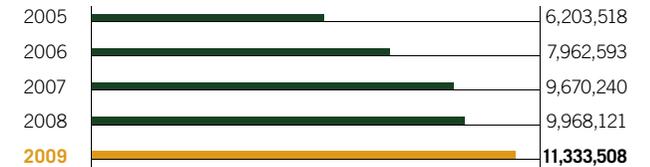
Electronic transaction channels make it possible to distribute work throughout Finland. Tax Administration customers can obtain tax advice through national service numbers. Service numbers have been set up for different customer categories, tax types and transaction modes. General advice is also available by email, using a feedback form that can be found in the Vero.fi website.

The Tax Administration's Vero.fi ([www.tax.fi](http://www.tax.fi)) website is one of the most used websites in Finland, with more than 11 million hits in 2009. The service placed 11th in a Taloustutkimus survey of the most respected online brands in Finland, improving on the 13th place in the previous year.

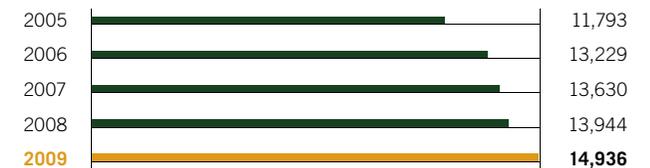
Vero.fi is being developed into a channel that offers different customer groups targeted information and guidance. The service will include comprehensive packages to address various taxation-related situations. Customers are encouraged to use the electronic transaction services related to each situation.

In 2009 the reform of the Vero.fi service was advanced by planning a publication system interface that meets the requirements for the upcoming reform. The new publication system project ends in spring 2010, after which content production for the new Vero.fi website can begin. The aim is to launch the service in spring 2011.

**WEBCOUNTER READINGS, WWW.VERO.FI, 2005–2009**



**CLOSED WEB FEEDBACK THREADS, 2005–2009**



### CUSTOMERS HAVE ADOPTED ELECTRONIC SERVICES

The numbers for electronic service users, filings and information have increased every year.

#### Electronic filing enables the use of pre-completed tax return forms

For the most part, yearly filings are now done online. Information filed electronically is quickly available for the Tax Administration use. This is necessary to allow for the transfer of as many customer details as possible to the pre-completed tax return forms.

### More than 250,000 users for Tax Return Online service

In 2009, customers could use the Tax Return Online service to electronically file their travel expenses from home to work, tax credits for domestic help, and capital gains and losses.

A total of 262,000 customers used the service, which is 116,000 more than in 2008. Users also provided feedback on the system, 60% of which was positive.

#### Ordering tax cards, paying wages and address changes happen online

More than 420,000 tax cards were revised through the Tax Card Online service in 2009. This represents an increase of 80,000 over the previous year.

The Palkka.fi service exceeded the 48,000 user threshold and the service further strengthened its standing as a tool for helping small employers. A total of EUR 226 million in wages was paid through the Palkka.fi service. The service interface was also renewed.

The shared registration system known as the Finnish Business Information System (BIS) increased its scope with its electronic address change service for businesses. The BIS electronic transaction service was opened at the beginning of November. In 2009, 45% of all changes in address or other contact information were handled through the service after it opened.

#### STATISTICS ON E-FILING, 2006–2009

	2006	2007	2008	2009	Change (%)
Companies using e-services	164,000	170,000	200,000	<b>220,000</b>	<b>+10</b>
Monthly tax returns	2,373,000	2,780,000	3,300,000	<b>3,580,000</b>	<b>+8</b>
Employer payroll reports (no. of wage-earners)	4,185,000	4,250,000	4,400,000	<b>4,250,000</b>	<b>-3</b>
Companies' income tax returns	22,800	47,000	72,000	<b>95,000</b>	<b>+32</b>
Direct transfers of wage-earner tax-card facts (no. of wage-earners)	3,650,000	3,780,000	3,950,000	<b>4,100,000</b>	<b>+4</b>

#### DIFFERENT METHODS OF ORDERING TAX CARD CHANGES, 2006–2009

	2006	2007	2008	2009	Change (%)
Customer counter	668,729	666,957	649,820	<b>575,088</b>	<b>-11.5</b>
Telephone	699,011	677,348	630,630	<b>506,824</b>	<b>-19.6</b>
Mail	57,407	31,610	20,435	<b>16,607</b>	<b>-18.7</b>
Online service		194,238	343,189	<b>420,603</b>	<b>+22.6</b>
<b>Total</b>	<b>1,427,153</b>	<b>1,572,160</b>	<b>1,644,074</b>	<b>1,519,122</b>	<b>-7.6</b>

### Online portals brings services needed by citizens and companies together

Tax Administration services are included in the online portals designed for different customer groups. The Suomi.fi portal is designed for individuals and it brings together electronic services, forms and instructions provided by the public sector. In 2009, more than 50,000 individuals used the online form in Suomi.fi to report their account number to the Tax Administration.

EnterpriseFinland is a portal for enterprises and people interested in entrepreneurship and is coordinated by the Ministry of Employment and the Economy. It describes what kind of assistance and electronic services are available for establishing, growing and developing an enterprise. The EnterpriseFinland telephone service opened in October 2009. The Uusimaa Regional Tax Office was involved in training telephone advisors for new entrepreneurs.

### Services for tax recipients moved online

The online service for tax recipients was launched in spring 2009. It offers more and more information about tax income online. Almost all of the information contained in the remittance

statistics is available online. The online service allows, for example, the tax recipients to examine the yearly trends in their own tax recipient group's share or the remitted amounts in the last periodic remittance accounting by tax year and by tax category.

The online service makes it possible to significantly reduce the number of printouts sent to tax recipients. It is also easier for tax recipients to transfer the information to their own systems.

### NEWS IN TAXATION

Changes in taxation will increase the need to advise customers and will also have an impact on Tax Administration procedures, information systems, expenses and tax control. The Tax Administration's goal is to influence the preparation of tax laws and promote the construction of a good tax system.

In 2009, the Tax Administration made extensive preparations for the changes taking effect at the beginning of 2010. Preparations for new and changing electronic services included providing businesses with the possibility to authorise someone else (usually an accounting firm) to handle electronic transactions on their behalf in the Katso ID system.

### Filing and paying unprompted taxes will change at the beginning of 2010

Payment of unprompted taxes, such as VAT and employers' contributions, will become easier when the virtual tax account is implemented at the beginning of 2010. In the first phase, the tax account will only apply to business taxpayers. The tax account only applies to individual taxpayers if they serve as an employer.

The Tax Administration will collect details about the taxpayer's unprompted tax filings, payments, refunds, interests, late payment penalties and non-payment penalties in the virtual tax account. The taxpayer will be provided with a monthly tax account statement. The tax account will allow payers of unprompted taxes to deduct refund entitling taxes from their tax payments and get a more accurate picture of their taxation and payment situation.

Tax account taxes are reported using a periodic tax return form and paid on the 12th day of each month. Taxpayers cannot choose which taxes they pay to the tax account, because the payments are allocated to different taxes as dictated by legislation. Tax refunds are paid to the taxpayer without delay unless the customer sets a refund limit for the account.

Tax account customers can use the Tax Account online service to follow the balance of their tax account and transactions, submit a periodic tax return and calculate the amount due for payment, including possible penalty interest, on a certain payment date.

Deposits of tax remittances to the tax recipient are based on tax account entries. The remittance schedule and principles

### TAXPAYER-ORIGINATED ELECTRONIC FILINGS VIA BIS, 2006–2009

	2006	2007	2008	2009	Change (%)
Start-up notifications	67,377	73,752	69,254	59,737	-13.7
Notification of changes/termination	137,378	145,707	155,743	158,609	+1.8
Changes of address	19,955	22,030	23,549	26,253	+11.5
- electronically*				2,460	
Information searches	13,586,562	14,398,795	16,540,219	17,295,427	+4.6

\* The service was launched in November 2009

remain unchanged. Remittances are paid to the taxpayer in the same manner, on the 28th day of each month.

The tax account procedure gives small companies the possibility for longer filing and payment periods. If turnover is a maximum of EUR 50,000, all unprompted taxes with the exception of lottery tax and tax on insurance premiums can be filed and paid in three-month periods. If turnover is a maximum of EUR 25,000, VAT can be filed and paid by calendar year. The switch to a longer period is voluntary.

#### Many changes in value-added tax

New country of sale regulations will enter into force at the beginning of 2010. Country of sale regulations define which country's VAT is paid on the sale. In the future, services sold to an entrepreneur will generally be taxed in the buyer's country of establishment. The buyer pays the tax on behalf of the seller, in other words, a reverse tax liability applies to the sale. The change does not affect services sold to a consumer. The general rule is that services are taxed in the seller's country of establishment.

The service seller will be obliged to provide an electronic summary of certain service sales between EU countries. Earlier the declaration was only submitted for sales of goods. The filing periods for intra-Community trade will change from quarterly to monthly.

The application procedure for foreign tax refunds will also change at the beginning of the year. Returns from other EU countries are applied for electronically in the ALVEU service maintained by the Tax Administration.

Changes in value-added tax rates continue. The value-added tax rate for food and animal feed was reduced to 12% at the beginning of October 2009. The next change in tax rates will take place in July 2010, when the general tax rate will rise from 22% to 23% and the tax rate for food and animal feed from 12% to 13%. The 8% tax rate that applies to things like books, accommodation services and passenger traffic will rise to 9%. The tax rate for sales of restaurant and meal services will be 13%.

#### Instructions for the assessment of wealth in inheritance and gift tax caused debate

The instructions concerning assessment of wealth in inheritance and gift tax that takes effect at the beginning of 2010 caused much debate in individual taxation. The instructions unify the principles for assessment of wealth that are the foundation for inheritance and gift taxation throughout Finland. If a customer does not provide documentation of the current value of property, the Tax Administration can apply the assessment instructions, which include price information about the sales of property that is similar to the property being assessed.

#### USE OF TAX CREDITS FOR DOMESTIC HELP, TAX YEARS 2005–2008

	2005	2006	2007	2008	Change (%)
Number of credits granted	218,967	243,170	260,959	<b>310,942</b>	<b>+19.2</b>
Average credited amount, EUR	636	677	696	<b>705</b>	<b>+1.3</b>
Total usage value, EUR	139,267,000	164,705,000	181,707,000	<b>219,186,000</b>	<b>+20.6</b>

Tax credits for domestic help are becoming more important and continue to grow in popularity among individual taxpayers. The maximum amount of these tax credits increased to EUR 3000 and the separate maximum amount related to renovation work was abolished at the beginning of 2009. The scope of application of the tax credit was extended to include installation, service and guidance related to information and communications technology.

## FILING A TAX RETURN HAS BECOME A CONVENIENT OBLIGATION

# CASE



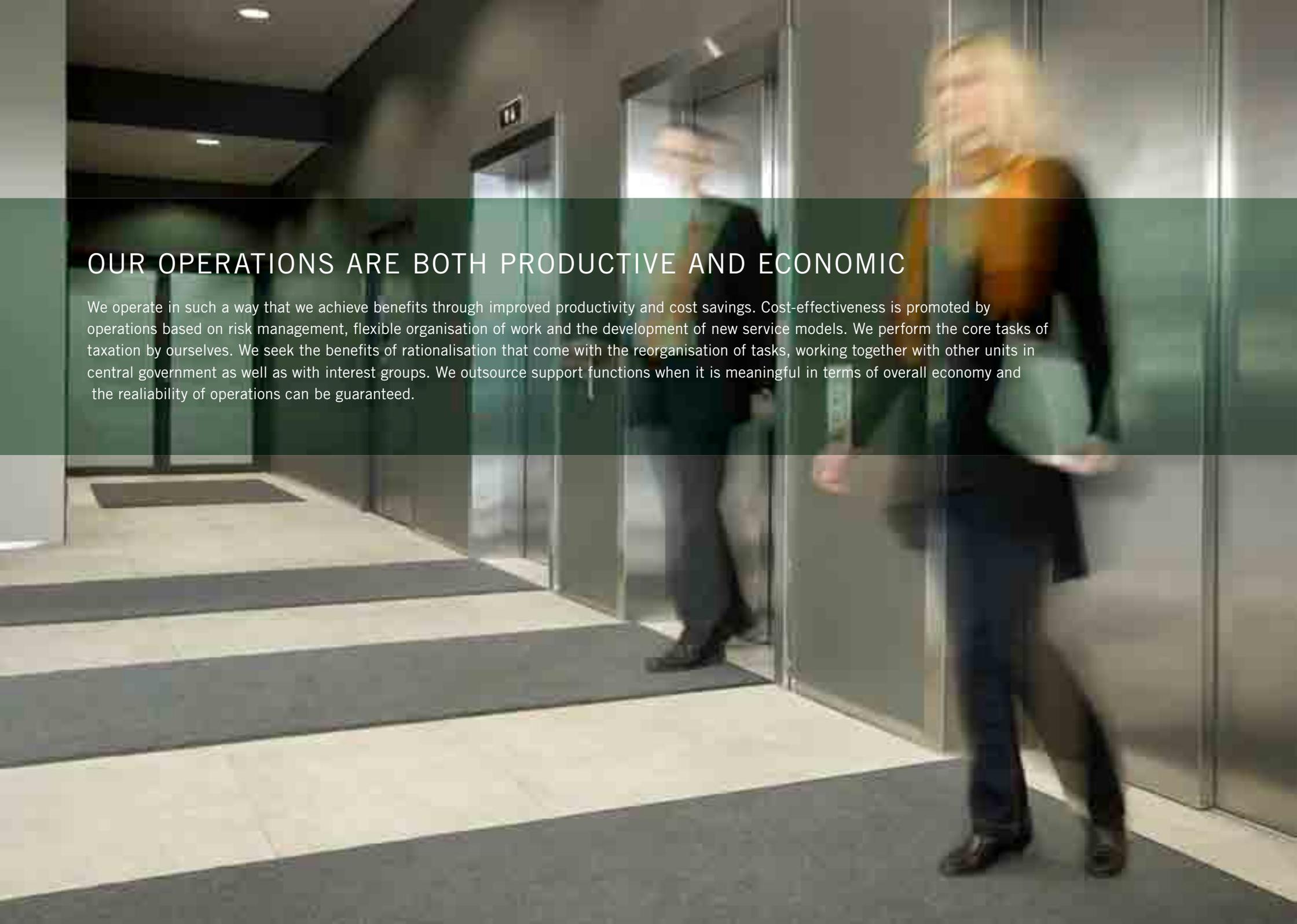
**“It’s great to be able to handle tax matters online. I already take care of most things online. Now I don’t have to line up or worry about office hours.”**

The Tax Return Online service was selected from more than 200 candidates to represent Finland in the eGovernment competition in Malmö, Sweden. The service reached the final round of the competition. The strength of the procedure was considered to be its convenience for customers.

Before the system was launched, the Tax Administration sent out five million empty tax return forms every year. Customers filled in the forms with information from receipts collected during the year and bank statements and then returned the forms to the tax offices. All of this information was then entered into the Tax Administration systems, every tax return was examined, and finally five million tax decisions were sent out.

Today the information comes from third party declarations, for example, employers and banks. This means that up to 3.5 million tax returns are ready as such, and 70% of customers only need to check the accuracy of the information. If changes or additions are required, 30% of customers can handle their obligations flexibly in the Tax Return Online service.

“It’s great to be able to handle tax matters online,” says Lari Järnefelt from Helsinki. “I already take care of most things online. Now I don’t have to line up or worry about office hours.” ■



## OUR OPERATIONS ARE BOTH PRODUCTIVE AND ECONOMIC

We operate in such a way that we achieve benefits through improved productivity and cost savings. Cost-effectiveness is promoted by operations based on risk management, flexible organisation of work and the development of new service models. We perform the core tasks of taxation by ourselves. We seek the benefits of rationalisation that come with the reorganisation of tasks, working together with other units in central government as well as with interest groups. We outsource support functions when it is meaningful in terms of overall economy and the reliability of operations can be guaranteed.

# We aim to be a flexible organisation

**The Tax Administration aims to carry out tax assessment cost efficiently and effectively, and with the least amount of human work necessary. The organisation is being developed in a manner that allows for work to be arranged as flexibly as possible.**

The Tax Administration comprises regional tax offices, the National Board of Taxes and national units.

**Regional tax offices** are responsible for the operative administration of taxation, tax control and customer service in their own area of operation. The following mergers will take place at the beginning of 2010: the Southeastern Finland and Savo-Karelia regional tax offices will be combined into the Eastern Finland Regional Tax Office and the Southwestern and Western Finland regional tax offices into the Western Finland Regional Tax Office. Following these mergers, Finland will have five regional tax offices. In addition, Helsinki is home to the Large Taxpayers' Office, which assesses the taxes of large corporations throughout the country.

The functions of all regional tax offices are organised by taxpayer group: corporate tax offices provide services for corporate taxpayers while separate units serve individual and self-employed persons. Tax auditing units also operate in the regional tax offices.

- Individual taxation services is available in more than 100 localities. There are 23 tax offices with nearly 90 branch offices and service points.

- Seven corporate tax offices and their branch offices provide corporate taxation services in 17 localities.
- There are a total of 7 tax auditing units, which operate in 25 localities.

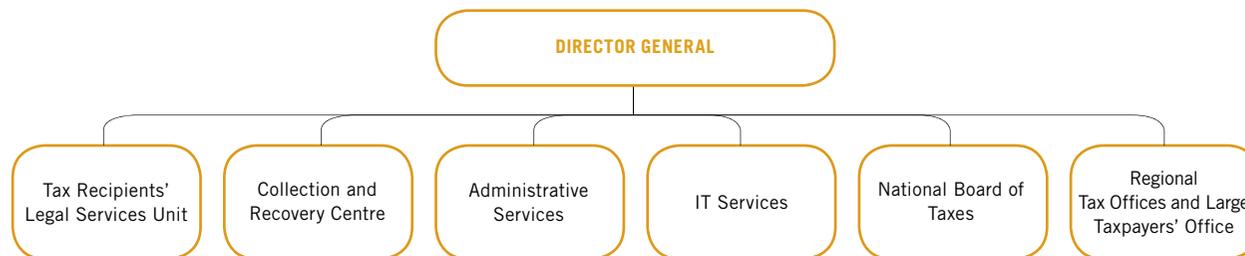
In 2009, the Tax Administration assessed the need to develop the individual taxation office network. One of the special focuses of this assessment was the staff and customer service. The need to visit the offices has decreased significantly as customers use more and more telephone and online services. As a result, most of the offices that employ 10 or less people could be closed during the next few years. Retirement will provide some leeway in terms of office and staff arrangements. However, if employees have to be transferred from one office to another, standard commuting distances will not be exceeded.

**The National Board of Taxes** manages and develops the administering of taxation and tax control. It also manages planning, security and communications for the Tax Administration as a whole as well as internal auditing.

The national **Collection and Recovery Centre** collects and recovers taxes and passes them on. The four regional collection units operate in seven localities, while the seven regional recovery units have operations in eleven locations.

The Tax Administration's national support units guide and serve all Tax Administration units in their respective areas of responsibility. The support units are **Administrative Services** and **IT Services**. IT Services was created after the merger of Production Services, IT Services and certain other units on 1 January 2010.

The task of the **Tax Recipients' Legal Services Unit** is to represent the interests of tax recipients in taxation and tax appeals.



## REDISTRIBUTION AND CENTRALISATION OF TASKS

For reasons of productivity and to ensure the availability of the expertise, some customer groups and tax types have been centralised nationally or within the regional tax offices. In order to even out the workload, the National Board of Taxes may also transfer the taxation duties for a certain taxpayer group to the area of another regional tax office. For many years now, the Tax Administration has reallocated its offices' workload by moving some functions provided in the busy Uusimaa region to units located elsewhere in the country.

- The 150 employees of the Large Taxpayers' Office handle the taxation, supervision and customer service for all major Finnish corporations in a centralised manner.
- The taxation of non-profit associations and foundations was centralised to the Western and Eastern Finland regional tax offices at the beginning of 2009. This translates into a workload equivalent to 19 full-time employees.
- The equivalent to 136 full-time employees in the Western Finland and Eastern Finland regional tax offices is dedicated to answering questions arriving via national helpdesk phone numbers and the Internet. Approximately 55 of these full-time equivalent employees are needed to handle contacts from the Uusimaa region.
- Individual taxation tasks for customers in the Metropolitan Helsinki Area is handled by 42 full-time equivalents in six localities elsewhere in Finland.

According to Government guidelines, the Tax Administration uses services provided by the Central government administrative and human resources management service centre. Financial administration services and the related system services were transferred to the State Treasury service centre in 2009, and personnel administration services will be transferred in 2010.

## ADVICE FROM DIFFERENT AUTHORITIES AT THE SAME LOCATION

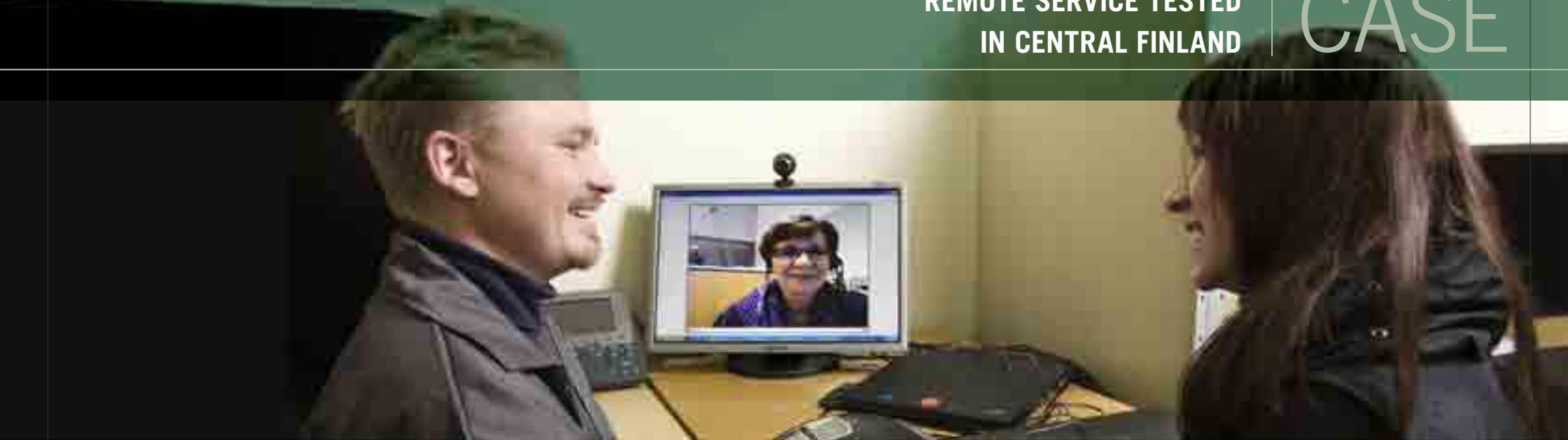
Finland has nearly 200 joint service points offering centralised public administration services in a single location. The service advisors working in the joint service points mainly handle customer service tasks related to the initiation of proceedings and guidance as well as support for electronic services. The actual decisions are made in the expert offices of each administrative branch.

The In To service point, which is jointly operated by the Tax Administration and Kela, offers taxation and social security services for foreigners who come to work, start a business or study in the Metropolitan Helsinki Area. Other customers include employers that utilise foreign labour. In To provided service to more than 3,000 customers in 2009, the majority of whom came from Estonia, Russia, India and England.

## ACTIVE COOPERATION OUTSIDE FINLAND AS WELL

For the Tax Administration, international cooperation is a very important means to obtain information, exchange experiences, learn from the best practices and export Finnish taxation know-how to other countries. The Tax Administration actively participates in the activities of international organisations.

- Cooperation in the **European Union** is extensive and regular. The Finnish Tax Administration participates in taxation working groups, committees and expert teams, which, among other things, deal with Community legislation matters and administrative cooperation and combat fraud.
- The **EU's Fiscalis programme** provides financing for pan-European seminars, working groups, simultaneous audits and work visits. The experiences gained have been utilised in administrative development work. In order to obtain the latest knowledge, Finnish work visits have been particularly pointed in the direction of so-called tailored work visits. In turn, Finland has hosted work visitors from other EU countries. Some of the visitors have taken part in joint programmes planned and arranged by the units. Other have come for tailored visits, in which the programme takes the visitor's particular interests into consideration.
- Within the **OECD** (Organisation for Economic Co-operation and Development) there are several cooperation groups, which produce statistics and comparative data as well as surveys and recommendations for common policy directions.
- The Tax Administration has been a member of **IOTA** (Intra-European Organisation of Tax Administration) since 2005. IOTA organises yearly seminars and education events. The Tax Administration also participates in IOTA's working groups.
- **Nordic cooperation** has continued at a brisk pace. Its contents and form are agreed upon annually in the meetings of Director Generals. Also, cooperation with the **Baltic Rim countries** continues with regard to tax control.



**“Based on the feedback we received, people found the remote service to be a good way to handle their taxation matters. Picture quality and size had a big impact on whether the transaction event was considered natural or not.”**

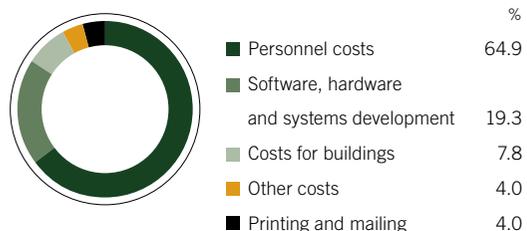
The Central Finland tax office was part of a remote service trial in autumn 2009. The inhabitants of Karstula and Kivijärvi had the opportunity to use an online camera and telephone to contact the tax office in Jyväskylä. The online telephones were located at the joint service points in Karstula and Kivijärvi. During the trial, customers were given advice regarding household deduction matters and in using the Vero.fi website and E-services.

“Based on the feedback we received, people found the remote service to be a good way to handle their taxation matters. Picture quality and size had a big impact on whether the transaction event was considered natural or not,” explains Service Advisor Päivi Hakkarainen from the Kivijärvi remote service point.

The remote service trial was part of the project to expand Joint Services. The parties involved in the trial were the Tax Administration, the municipalities of Karstula and Kivijärvi, Kela, the Finnish Police’s licence service and the TE office.

The goal of the trial was to obtain information about how the systems of several administrative branches and municipalities work together and what possible problems might arise. The experiences and information obtained during the trial will be utilised to develop remote services and plan functional, customer friendly interfaces and cost-effective transaction systems. ■

## OPERATING EXPENSES BY CATEGORY 2009



## SOCIAL RESPONSIBILITY ON MANY FRONTS

The Tax Administration has striven to improve its social responsibility in many ways. Financial responsibility means that the Tax Administration operates according to the productivity programme, works to reduce the administrative burden on customers, and continues to develop its planning and follow-up systems and the management's information systems.

The Tax Administration fulfils its social responsibility by treating its customers and personnel equally. The Tax Administration supports its personnel's well-being at work and ensures that personnel reporting remains at a high level and observes good administrative practice.

The creation of an environmental programme for three piloting units and a follow-up and reporting system to cover the entire Tax Administration helped to further environmental responsibility in 2009. The piloting units met the WWF's Green Office criteria in autumn 2009. The Tax Administration is one of the first public sector actors to take concrete action to reduce costs and CO2 emissions. In the future, environmental responsibility will apply to all Tax Administration units. Percentual targets for reducing the environmental burden have been set and they will be monitored systematically.

## STRICT FINANCIAL MANAGEMENT

The net operating expenses of the Tax Administration in 2009 came to EUR 389.7 million. In the 2009 central government budget, EUR 375.7 million had been allocated for those operating expenses. The excess spending was covered by using savings from previous years. Savings of EUR 24.2 million from 2008 decreased by EUR 14 million and a total of EUR 10.2 million in saved appropriations was carried over to 2010.

### Personnel and IT costs account for largest expenditures

Compared with the previous year, nominal net expenses grew by 0.7%. The reasons for this slight increase were higher costs for buildings (+5.6%), IT (+5.1%) and printing and mailing (+4.0%). Operating income fell by 20.4%. Payroll costs rose by 1.4% while indirect personnel costs dropped by 5.4%. Travel costs fell by 12.0% and training costs by 20.1% over the previous year.

Index increases in lease agreements and facility changes accounted for the increase in costs for buildings. The growth in IT costs and printing costs resulted from the progress of development projects to support customer service and electronic transactions. Increased retirement and a low level of recruitment from outside the administration slowed the growth of payroll costs. A reduction in the employers' social security contribution and the revised employer's pension insurance refund led to a decrease in indirect personnel costs for 2008.

The decrease in operating income was influenced by the fact that tax agent activities were no longer subject to a charge after they were transferred to the authorities. Travel expenses were reduced by improving video conference connections, favouring environmentally friendly modes of travel and centralising travel administration. Training expenses were also reduced by utilising more online courses and internal administrative training.

### Lower costs in 2009

Tax administration costs totalled EUR 377.2 million, representing a decrease of 1.2% over the previous year.

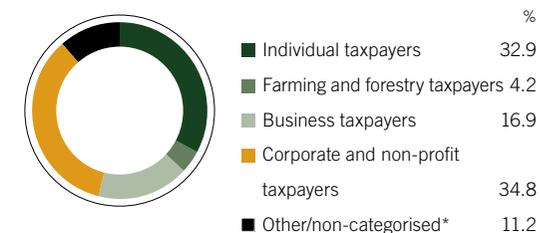
When examined by taxpayer category, Tax Administration costs were divided as follows: individual taxpayers EUR 124.2 million, farming and forestry taxpayers EUR 15.8 million, business taxpayers EUR 63.3 million, corporate and non-profit taxpayers EUR 131.2 million, and other non-categorised taxpayers EUR 42.4 million.

### NOMINAL VALUE EXPENSES 2009 TAX ADMINISTRATION (€ 1,000)

	2007	2008	2009
<b>Costs</b>			
wages *)	234,213	250,504	<b>250,601</b>
rental costs	24,847	25,020	<b>26,186</b>
other costs	101,696	115,938	<b>116,902</b>
investments	4,132	1,528	<b>876</b>
<b>Total</b>	<b>364,888</b>	<b>392,990</b>	<b>394,565</b>
<b>Income to offset net operating costs</b>			
services subject to a charge	3,846	3,447	<b>2,962</b>
other financing	1,612	2,707	<b>1,939</b>
<b>Total</b>	<b>5,458</b>	<b>6,154</b>	<b>4,901</b>
Net costs (+) / net income (-)	359,430	386,836	<b>389,664</b>
Budget	341,950	363,402	<b>375,691</b>
Change in savings	-17,480	-23,434	<b>-13,973</b>
Balance of savings 31 December	47,601	24,167	<b>10,194</b>
Number of staff (in full-time equivalents)	5,913	5,757	<b>5,595</b>

\* Kela-paid social allowances included

### COST DISTRIBUTION BY TAXPAYER CATEGORY 2009



\* Includes costs arising from information services and from services to enforce the rights of tax recipients. The costs for other tax types such as property, inheritance and gift taxation as well as for some other smaller taxes are also included under this category.

### TAX ADMINISTRATION COSTS 2005 TO 2009, EUR million



## **TAXATION IMPLEMENTED WITH LESS HUMAN INPUT AND COSTS**

Since 2003, the Tax Administration has sought significant improvements in the productivity of its operations. The aim is for tax assessment to be carried out as cost efficiently and effectively as possible, and with the least amount of work necessary. In spite of saving demands, taxation must be uniform and correctly done, so that the tax revenue accrues and is remitted to the tax recipients in the correct amounts and at the correct time. Fiscal effectiveness and customer services must be kept at a high level.

### **Number of personnel reduced by hundreds**

In practice, improving productivity and economic efficiency means that taxation assessment must be accomplished using a smaller number of personnel. The Tax Administration has increased electronic transactions and information transfer in addition to automating and reorganising functions. As a result, it has been possible to reduce the number of personnel without a noticeable effect on services or tax control. More and more employees are retiring, which has provided the opportunity to decrease the number of personnel according to the principles of the Government's personnel policy. Between 2003 and 2009 the decrease in the Tax Administration's personnel could be quantified as 700 full-time equivalent employees. The goal for 2015 is to achieve a further reduction of several hundred full-time equivalent employees.

The Tax Administration also has to concentrate its functions into larger units. New facility solutions are aimed at increasing the efficiency of facility use. The goal of this work is a reduction in overall rental costs even though rents have increased.

### **Smoother taxation processes needed**

Automation of taxation processes and an increase in electronic information transfer and transactions will require changes in the Tax Administration's information systems. The majority of the Tax Administration's IT costs come from maintaining the information systems and ensuring their functionality. These are unavoidable costs. The challenge, therefore, is to make the money last for strategic development projects, which are a prerequisite for the implementation of the productivity programme. The development projects for these information systems and work processes are extensive and generally last for several years. The savings resulting from such projects will only be realised over a long period, and it is not possible to speed up the work to any great extent. The aim is to observe a strict budget in IT solutions and to increase the use of plug-in programmes whenever possible.

Legislation should also support the streamlining of taxation processes. The regulations must be simplified and schematised. If this does not happen or if the legislation becomes even more complicated, the number of tasks requiring direct human input will remain unchanged or will increase. Right now, changes in legislation which increase employee workload and at the same time reduce the productivity of the Tax Administration have already been implemented or are under way.

On the other hand, the regulations pertaining to the Tax Administration powers have now been made more flexible. The new regulations have made it possible to distribute taxation tasks around the country, and certain tasks can be centralised regionally or nationally.

### **Focusing on risky customers**

As resources decrease, the credibility of tax control is being retained by focusing control resources more clearly on managing the risks and customers at risk that may increase the tax gap. A tax gap refers to the difference between expected tax revenue according to the law and actual tax revenue.

Control and marketing are aimed at influencing phenomena and issues that lie behind customer behaviour. According to the strategy, customer management is being developed so that customers can handle their tax matters in the easiest possible way and customers are provided with guidance to operate in the proper manner. This reduces the need for control after the fact.

A photograph of a modern office hallway. The hallway has a light-colored wooden floor and a white ceiling with recessed lighting. On the left side, there are several glass-walled offices. A person in a white shirt is blurred in the foreground, moving quickly. In the background, two other people are walking away from the camera down the hallway. The overall atmosphere is professional and dynamic.

## OUR ORGANISATION HAS INNOVATIVE POTENTIAL

We improve the capability of the Tax Administration to renew in the manner required by changes in the operational environment and developments in our operations. We invest in competence. We expect of our employees personal initiative, flexibility and a goal-driven mindset.

# Tax Administration staff

**The productivity of Tax Administration operations is based on personnel competence and good professional skills. New and changing work tasks require our personnel to be ready to change and develop their competence.**

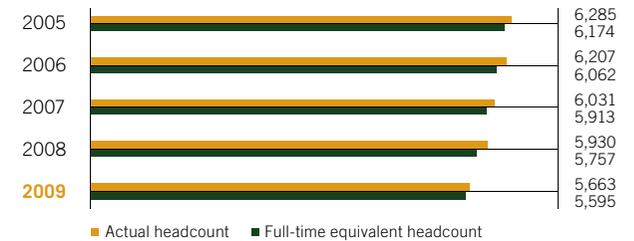
The numbers of staff and full-time equivalent employees at the Tax Administration have continued to decrease in accordance with the plans. Since 2002, the number of the personnel has fallen by approximately 2 per cent each year. At the end of 2009, there were 5,663 people working in the administration, a decrease of 4.5% on the previous year.

The Tax Administration's goal for 2009 was set at 5,700 full-time equivalent employees. The end result was 5,595 full-time equivalent employees, which is 105 less than the framework.

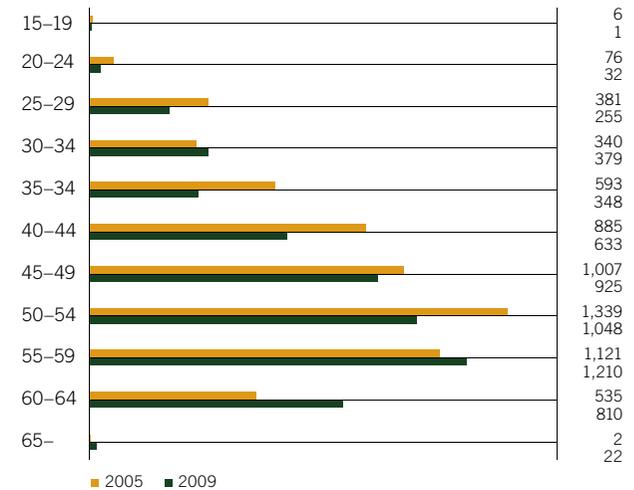
### Average staff age is on the increase

The average age of Tax Administration staff was 49.1 at the end of 2009, which was an increase of 0.5 years on the previous year. The share of staff over the age of 60 has risen to nearly 15%, while those under the age of 30 only account for some 5%. In the long run, the aim of the administration is to balance the age structure by recruiting younger employees. This process, however, will take time, because the difficult financial situation means that recruiting opportunities from outside the Tax Administration are limited.

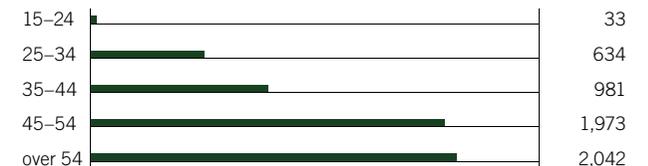
### ACTUAL STAFF HEADCOUNT AND STATISTICAL QUANTITIES, 2005–2009



### STAFF AGE STRUCTURE, 2005 AND 2009 (Age)



### AGE DISTRIBUTION, 2009 (Age)



### Higher educational level as a goal

One of the goals of the Tax Administration is to improve the staff's educational level. The level can be raised by motivating the staff to undertake study or participate in examinations or by recruiting new employees with a higher education level.

The share of staff with a university-level degree has increased during the last five years. At the end of 2009, 37.6% of Tax Administration employees had a university degree. The most common (40%) level of education was the higher vocational level, for example, a diploma from a business college.

### STAFF TRAINING TAKES PLACE ONLINE AND THROUGH COURSES

The Tax Academy offers internal training for Tax Administration employees. The training provided by the Tax Academy has been changing from long training programmes towards individual courses. A total of 60 multiform courses are offered, and these courses can be used to build tailored, task-specific training programmes. Employees can also take the courses on an individual basis. Altogether, there were 1,055 course completions.

A new operating model for training in the taxation of individuals that was introduced in 2008 established its position during 2009. Training in the assessment of individual taxpayers is made up of study concepts, which are classified into basic, professional and expert levels according to how demanding those levels are. Training sessions can be arranged flexibly and, if necessary, in different forms nationally, in tax offices and other units.

### New web-based courses for a new learning environment

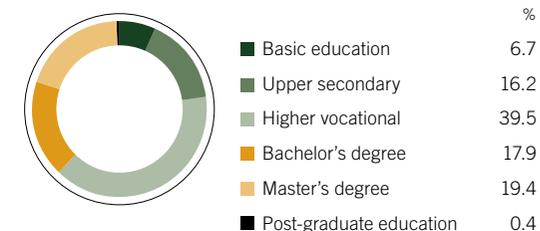
In summer 2009, a decision was made to transfer the Tax Administration's online studies from the Woppi environment to the Moodle learning environment for the period of 2009–2011. Six new web-based courses were produced for Moodle: Taxation of Business Operators and Self-Employed Persons, Rental Income, Hyresinkomst, Taxation and Administrative Procedure, Withholding Tax, and Withholding Tax for Small and Household Employers.

The web-based courses continue to be very popular, with 948 employees taking Woppi courses and 1,651 taking Moodle courses. There were also 51 Tax Administration employees taking web-based accounting courses offered by the Häme University of Applied Sciences.

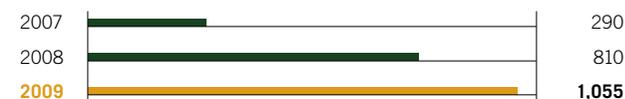
### Training offering consolidated in eHR

A training segment was added to the electronic eHR system used for pay and development discussions in autumn 2009. It now includes all training offered by the Tax Administration. The pay and development discussions and training offering now have a common interface, which makes it easier to draw up personal development plans, register for training electronically and monitor performance. eHR also simplifies the maintenance of training information and eliminates overlapping functions.

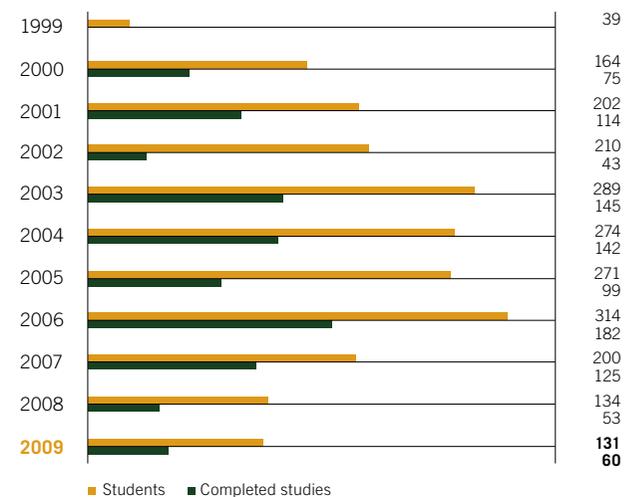
STAFF EDUCATION, Education level



INDIVIDUAL COURSE COMPLETIONS, Completions

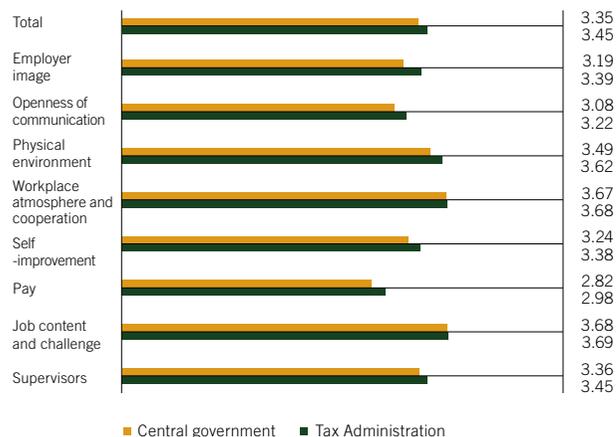


NUMBER OF STUDENTS IN EDUCATION PROGRAMMES AND NUMBER OF CERTIFICATES GRANTED YEARLY



### RESULTS OF JOB SATISFACTION SURVEY IN THE TAX ADMINISTRATION AND THE WHOLE CENTRAL GOVERNMENT, 2009

Scale 1–5, 1 = very dissatisfied and 5 = very satisfied



### SUPERVISORS RECEIVE SUPPORT FOR LEADERSHIP AND CHANGE MANAGEMENT

The Work and Lifecycle Management project is being implemented in 2008–2010. This project supports Tax Administration supervisors and internal developers in leadership and change management and standardises methods related to well-being at work and the management of change. Another goal is to anticipate future development needs related to work community skills and well-being at work.

The project has involved arranging coaching and training days for supervisors and internal developers in which the main partner is the Finnish Institute of Occupational Health. The project has utilised the latest research data and applied it to practical supervisor work. Feedback was collected from the participants and proposals for additional measures will also be utilised after the project.

### JOB SATISFACTION SURVEY RESULTS CONTINUE TO IMPROVE

The results of the VMBaro job satisfaction survey improved again in 2009. Improvement could be seen in nearly every area. The Tax Administration scores for all main areas were better than the scores in the rest of the public service.

The staff provided the best score for job content and challenge. Up to 75% of the staff was satisfied or very satisfied with job content and challenge. The work atmosphere and cooperation also received good scores in the Tax Administration: 62% of respondents were satisfied with fair and equal treatment from their colleagues. Tax Administration employees are also very satisfied with their opportunities to combine work and private life. The employer tries to take different life situations into consideration in a flexible manner. The Tax Administration uses a variety of working time models that range from flexible working time to the use of a working time accounts.

### RESULTS OF JOB SATISFACTION SURVEYS AT THE TAX ADMINISTRATION, 2005–2009

Scale 1–5, 1 = very dissatisfied and 5 = very satisfied

	2005	2006	2007	2008	2009
Supervisors	3.28	3.34	3.39	3.41	<b>3.45</b>
Job content and challenge	3.64	3.66	3.69	3.68	<b>3.69</b>
Pay	2.66	2.72	2.80	2.89	<b>2.98</b>
Self-improvement	3.28	3.31	3.32	3.36	<b>3.38</b>
Workplace atmosphere and cooperation	3.56	3.59	3.65	3.65	<b>3.68</b>
Physical environment	3.61	3.62	3.67	3.64	<b>3.62</b>
Openness of communication	3.13	3.16	3.21	3.21	<b>3.22</b>
Employer image	3.27	3.26	3.33	3.40	<b>3.39</b>
<b>Total</b>	3.32	3.35	3.40	3.42	<b>3.45</b>

## STAFF CONSIDERED METHODS OF INFLUENCING CUSTOMERS

# CASE



### **“A special feature for us was the fact that our customers are all internal. Our job is to help our customers succeed in their own work.”**

The Tax Administration, like any other organisation, faces a challenging task in trying to communicate its strategy and concretise it to make each employee aware of acting in accordance with common goals. Every year the Tax Administration's management group confirms the main strategic messages, which are discussed in the entire administration. These discussions reinforced a view of how the staff can, through its own work, influence the achievement of strategic targets.

In 2009, a discussion was initiated concerning the Tax Administration's new risk management-based operating method. The goal was for everyone to become familiar with the Tax Compliance model, which is the foundation of the new operating method. The model divides taxpayers into four groups. Each group is handled differently according to the attitudes and behaviour of the taxpay-

ers in the group. To provide support for supervisors, a website called Our Common Future (Yhteinen tulevaisuutemme) was opened in the intranet. It contains instructions and tools to help deal with the topic, for example, in team meetings.

“We talked about the Tax Compliance model in our group before the pay and development discussions. The task was to consider which group the majority of our customers belong to on the basis of their attitudes and how we can enhance the customers' desire to act in the right way,” explains Anssi Sahlman from the Tax Administration's IT Services. “A special feature for us was the fact that our customers are all internal. Our job is to help our customers succeed in their own work.” ■

## Management and Advisory Board



### **TAX ADMINISTRATION MANAGEMENT GROUP**

*From left:* Keijo Vehmas, Markku Heikura, Paula Lampinen, Jukka Kauppila, Kari Huhtala, Mirjami Laitinen, Tauno Kara, Tuula Kempainen, Heli Lehtinen, Kirsi Huhtamäki-Nasri (Chair, Association of Tax Officers from 1.1.2010), Heli Lähteenmäki, Veli Patama, Raija Mannermaa, Arto Pirinen, Maija-Leena Rautanen, Ahti Leoska, Anita Wickström and Pekka Ruuhonen.

*Missing from the photo:* Heli Marttinen, Pirjo Korvola, Osmo Vesterinen and Timo Räbinä.



#### **ADVISORY BOARD OF THE TAX ADMINISTRATION**

*From left: Mirjami Laitinen, Pauli K. Mattila, Tanja Rantanen, Martti Kallio, Helena Pentti, Lasse Arvela and Vesa Korpela.*

*Missing from the photo: Leena Tuikkanen.*

## **TAX ADMINISTRATION'S MANAGEMENT GROUPS 31 DECEMBER 2009**

The directors of the National Board of Taxes, the nationwide units and the organisational development project belong to the Central Management Group. The Tax Administration Management Group also includes the directors of the regional tax offices and the director of the Tax Recipients' Legal Services Unit. In addition, there are two personnel representatives, one in each management group. The Central Management Group meets once a week and the Tax Administration Management Group convenes on a monthly basis.

### **Central Management Group**

Ms Mirjami Laitinen, Director General  
Ms Maija-Leena Rautanen, Senior Director, National Board of Taxes/Taxation Centre  
Ms Paula Lampinen, Senior Director, Collection and Recovery Centre  
Mr Kari Huhtala, Director, Administrative Services  
Mr Arto Pirinen, Director, National Board of Taxes/Management Support and Communications  
Ms Heli Marttinen, Director, National Board of Taxes/Tax Auditing Unit  
Mr Markku Heikura, Chief Information Officer  
Ms Heli Lehtinen, Director, IT Services  
Mr Tauno Kara, Director, Production Services  
Mr Keijo Vehmas, Deputy Director, National Board of Taxes/Internal Auditing Unit  
Ms Pirjo Korvola, Communications Manager, National Board of Taxes/Management Support and Communications  
Mr Pekka Ruuhonen, Project Director, Organisational Development Project  
Mr Jarmo Salminen, Senior Advisor, National Board of Taxes (personnel representative)

### **Tax Administration Management Group**

Ms Mirjami Laitinen, Director General  
Ms Maija-Leena Rautanen, Senior Director, National Board of Taxes/Taxation Centre  
Ms Paula Lampinen, Senior Director, Collection and Recovery Centre  
Mr Kari Huhtala, Director, Administrative Services  
Mr Arto Pirinen, Director, National Board of Taxes/Management Support and Communications  
Ms Heli Marttinen, Director, National Board of Taxes/Tax Auditing Unit  
Mr Martti Heikura, Chief Information Officer  
Ms Heli Lehtinen, Director, IT Services  
Mr Tauno Kara, Director, Production Services  
Mr Keijo Vehmas, Deputy Director, National Board of Taxes/Internal Auditing Unit  
Ms Pirjo Korvola, Communications Manager, National Board of Taxes/Management Support and Communications  
Mr Pekka Ruuhonen, Project Director, Organisational Development Project  
Ms Heli Lähteenmäki, Regional Tax Director, Uusimaa  
Ms Raija Mannermaa, Regional Tax Director, Southwestern Finland  
Ms Anita Wickström, Regional Tax Director, Central Finland  
Mr Osmo Vesterinen, Regional Tax Director, Southeastern Finland  
Ms Tuula Kempainen, Regional Tax Director, Savo-Karelia  
Mr Veli Patama, Regional Tax Director, Western Finland  
Mr Jukka Kauppila, Regional Tax Director, Northern Finland  
Mr Ahti Leoska, Senior Director, Large Taxpayers' Office  
Mr Timo Rabinä, Chief Tax Ombudsman, Tax Recipients' Legal Services Unit  
Ms Leena Tuikkanen, Chair, Association of Tax Officers (personnel representative)

## **ADVISORY BOARD OF THE TAX ADMINISTRATION, 31 DECEMBER 2009**

The Ministry of Finance appoints the members of the Advisory Board, which assists the Tax Administration in its strategic planning. They represent taxpayers, tax recipients and other interest groups.

The Advisory Board met seven times in 2009. The meetings addressed issues such as organisational changes in the Tax Administration, the results of the job satisfaction survey and planning documents and monitoring reports related to operations and finances.

### **Chair**

Mr Lasse Arvela, Senior Director, Ministry of Finance

### **Members**

Ms Mirjami Laitinen, Director General, Tax Administration  
Mr Martti Kallio, Director, Association of Finnish Local Authorities  
Mr Vesa Korpela, Head of Legal Affairs, Taxpayers' Association of Finland  
Ms Helena Pentti, Economist, Central Organization of Finnish Trade Unions  
Mr Pauli K. Mattila, Deputy Director General, Central Chamber of Commerce  
Ms Tanja Rantanen, Senior Adviser for Finance, Ministry of Finance  
Ms Leena Tuikkanen, Chair, Association of Tax Officers

**NATIONAL BOARD OF TAXES**

Haapaniemenkatu 4 a, Helsinki

PO Box 325, 00052 VERO

Tel. +358 9 7311 36

Fax +358 9 7311 3595

The Tax Administration provides its customers with electronic transaction services. Customers of the Tax Administration can obtain tax advice through national service numbers. In addition, customer services are provided by a nationwide network of local and corporate tax offices and other service points.

Up-to-date contact information for the Tax Administration is available at [www.vero.fi/yhteystiedot](http://www.vero.fi/yhteystiedot).

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