The Long and Winding Road to a Tax Return Free World

Experiences from the Finnish Tax Administrations' pre-completed no-touch return system

The Finnish Tax Administration
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Overview of the presentation

- Quick facts about Finland
  - The Finnish TA
  - Taxes in Finland
- The 10+ years to a pre-completed no-touch tax return system
  - Evolution of the concept
  - Building the infrastructure
  - Testing the idea
  - Educating the public
  - Convincing the TA and its' stakeholders
  - The next steps
- Technology behind the system
  - Business to Government integration, PKI and authentication, Small Employers Information System

Some short facts about Finland

Population: 5,3 million

Land-area: 338,000 square kilometres, of which 10% is water and 69% forest; "slightly smaller than Montana"

GDP per capita 31 886 € (42 000 $) in 2006

Tax rate 44.5% of GDP in 2005

- Part of the Swedish realm for some 600 years up to 1809
- Part of Russian empire 1809-1917
- Independence 1917
- Civil war 1918
- Winter war against Soviet Union 1939-40
- The Continuation War 1941-44
- Member of UN 1955
- Neutral during the cold war, although with close relations with the neighboring USSR
- Member of European Union 1995
- Euro currency from 2002
- Official Languages: Finnish and Swedish

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3
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The Finnish Tax Administration

- **HQ in Helsinki, 8 Regional Tax Offices + LTU,**
- **50 offices and nearly 70 other service points**
  - Reduction of the office network going on
- **6000 staff**
  - ~ 200 in IT + ~300 contractor staff
  - Staffing goal for 2012: 5000
- **Annual budget 343 million € (450 M $) in 2006**
  - ITC expenses 15 - 20%
- **Collections 55.5 billion € 2006**
- **The TA collects VAT, state and municipal taxes, social insurance fees and other tax-like obligations, church taxes and forest association fees**
- **Excises and car import taxes are gathered by the Customs administration**

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4
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The pre-completed no-touch system in brief

- The system is very similar among all Nordic countries - Sweden, Norway, Denmark, Finland
- The TA gets information from different sources in January-March
- The TA sends 4.8 million pre-completed tax returns to the citizens in April
- If the information is OK – nothing to change, add or correct – you don't have to do anything
- If changes, then you must submit the return back by May 8th or 15th
- 31% of the pre-completed returns come back to the administration with additional data for reassessment
- The TA sends you a new assessment in August-September if needed
- Final closing of the tax year in October
- Due-date for residual tax in December and February
- 5 years time for corrections of the assessment for the citizen, 2 years for the TA

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The way to the pre-completed tax return

- **First usage of information from employers as a source of control**
  - First with paper-based information returns
  - Electronic submissions (tape, diskette) gradually grew as computerization grew among companies and employers
- **Next stage using information from employers as main source of information and tax return data for citizens as a source of control**
  - The data from computer systems was more reliable than from individual taxpayer returns
- **First pre-populated tax returns with name, address**
  - The idea was to remind the taxpayers to fill the tax return
  - Helps in sorting the returns – "sorting number" on the form
  - Free return envelope along with the "tax-return package"
- **The big question: if we pre-fill the tax return form then why not pre-fill it with everything we already know?**

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Evolution of the idea

- The pre-completed return started with ”easy” taxpayer groups with expected minimal changes - pensioners
- The number of taxpayers to receive the pre-completed tax return steadily grew with new groups
- The whole population in the system from tax year 2005

The pain points of the system

- Trust is vital
  - How to build the system that most people and stakeholders trust and are happy with?
- Change management
  - Inside the tax administration
    - “It is not against the law”
  - The taxpayers
    - “No, You really don’t have to fill a tax return but you have to check the pre-filled return and report the corrections and complements”
  - The employers and other stakeholders
    - “We need that information, please give it to us on time”
  - Ministry of Finance
    - “You will get your money”
  - Politicians
    - “Keep the tax legislation as simple as possible”
- The tax laws
  - The tax laws are not always on your side
- Life is more complicated than the TA wishes it to be

Experiences from the system

- **31% of the pre-completed returns come back to the administration**
  - The ones not returning have also to be controlled somehow
- **The system changes the high season of the TA from early spring to the summer**
- **Most of all: the public loves the system**
- **However: there is still a lot of work to get the system to the next step**
  - How to get the easy and obvious tax deductions not pre-filled into the system so even less returns come back
  - How to get all the information sources to hand over the tax related data
  - How to make sure that the data is right and minimize errors

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Technology behind the system

- **Semi-integrated tax information system starting from 1990 – mainly batch processing with Cobol and Oracle DB**
- **The key to the successful system is how to get the right information at the right time from employers, banks, the stock market and other information holders**
  - The TA has co-operation with major accounting and payroll systems vendors
  - Ta has regular meetings and co-operation groups with banks etc.
  - Reminding the information sources about their obligations
    - **Letters, phone calls, penalty fee for not submitting the data**
  - Laws and regulations
    - Companies with over 40 employees must submit electronically
  - Good basic infrastructure and basic registers - population and business registers, banking system
  - The 4.8 million pre-filled forms are printed with inkjet-technology and delivered via the postal service in a few days

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Why the Internet is not the prime media

- **Bulk of information gathered from different information sources**
  - Accounting systems, payroll systems etc.
- **We see the Internet as a secondary source**
  - Good for small employers and good to make corrections to the pre-completed return
- **The primary effort has gone to Business to Government integration**
  - The information needed is already somewhere out there
- **Next step is to add the use of the Internet**
  - Build an Internet based on-line correction system for the pre-completed tax return
    - **There are different options available and no final decisions has yet been made**
    - **Do it yourself or integrate to an existing infrastructure, like the e-banking system, which has electronic invoicing built-in**

The use of Internet today

- **TA Internet Information Service (www.vero.fi)**
  - In Finnish, Swedish, English
- **Tax laws and important court rulings (www.finlex.fi)**
- **All tax forms available from the Internet as PDF or WORD-documents,**
  - (http://www.suomi.fi/suomifi/suomi/asiointi_ja_lomakkeet/)
  - No bar codes in use
  - Some automation experiments going on
- **Tax cards from the Internet**
  - (The tax card tells your employer what is your personal withholding tax percent. Everyone is sent one at the beginning of the year and has to hand it to ones' employer. The employer can receive them also electronically from the TA)
  - 2007 started a new internet based service to supplement older phone services for renewing the tax card if the estimation is not correct

The TYVI-system

- **B to G integration**
  - Idea to offer one point of contact for all governmental administrative contacts and submissions
    - TA, Social and other insurance institutions, statistics office
- **Started 2001**
- **Costs paid mainly by the government**
- **Part of a larger B to G information exchange infrastructure**
- **Companies with more than 40 employees must submit annual information returns electronically via the TYVI-system**
- **TYVI interface is integrated into most accounting software solutions offered in Finland**

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13
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Electronic identification, authentication and authorization systems

- **The TA uses the banking systems' identification system**
  - Very reliable, phishing difficult because of changing single use passwords
  - Optional to the state electronic ID-card
  - www.tunnistus.fi build together with Ministry of Labor and the Social Insurance Institution of Finland
  - Open to new authentication services
- **Role based authentication system Katso**
  - https://yritys.tunnistus.fi/main?locale=en
  - To make electronic identification, authentication and authorization possible among different systems throughout the infrastructure
  - Based on SAML 2.0 and Liberty's Web Services standard

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14
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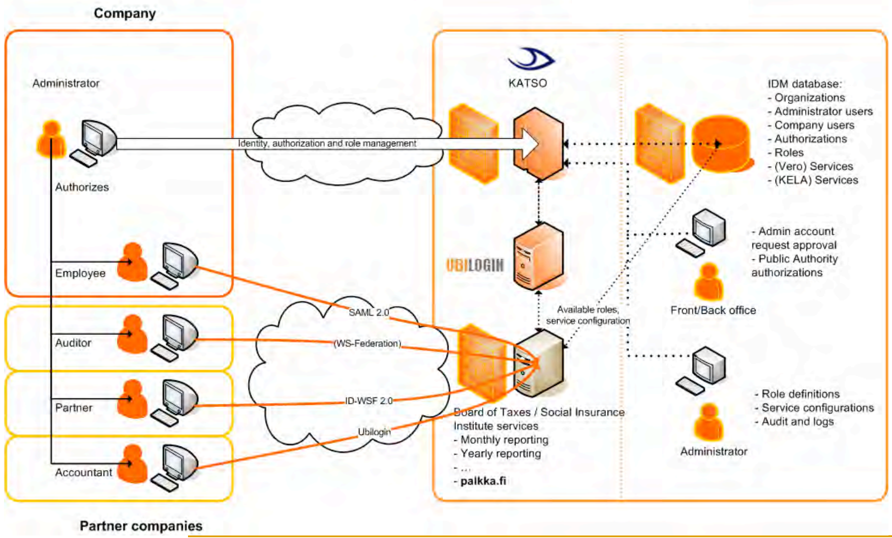
Katso solution



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Palkka.fi

- **Free Internet based payroll and accounting system for small employers (max. 5 employees) - like households**
- **Helps to fulfill employer obligations**
- **Built by consortium of insurance companies, the Tax administration and the National Social Insurance Institution**
- **Not only taxes but also other obligations like compulsory insurances, reporting etc.**
- **On the other hand competes with private sector accounting systems vendors**

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Final marks and lessons learned

- **Although technology is a key element change management is even more important**
- **Taxpayer education is vital – also informant education**
- **Think of the whole tax ecosystem, not only the TA internal processes**
  - Who participate in the “tax-cluster”?
  - How does the information flow from an economic transaction to the TA and how is that taxed?
  - How and where from do you get the right information?
- **Make it easy and cheaper to comply via electronic means**
  - Benefits for both the tax payers and tax administration
  - Reporting by electronic means has to be cheaper than traditional means also for the reporter not only the administration
  - Try to keep the administrative burden of taxes as low as possible to all stakeholders
- **It takes time – a lot of time**
  - Trust on and from all sides is important – honesty and professionalism

Questions?
Comments?