

Main findings and opinions of the National Audit Office

Economic effects of changes in taxation - corporate and capital taxation

The purpose of the audit was to examine the changes in corporate and capital taxation made during the term of Prime Minister Jyrki Katainen's government and to determine whether a true and fair picture has been given of the economic effects of the changes in corporate and dividend taxation. The focus is on the preparation phase as well as on the reasoning of the Government proposal. The success of the application principles of good statute drafting are examined in the preparation of corporate and dividend taxation reform.

The National Audit Office is of the view that the picture given of the economic effects of the changes in corporate taxation is not entirely correct. According to the Government proposal concerning the corporate taxation decision, the change in taxation is not expected to have any dynamic impacts on economic growth. However, under the spending limits decision of 2013, this was the main aim of the taxation reform. The National Audit Office is of the view that, on the basis of the research literature, there are good chances that the lowering of the corporate tax will lead to higher economic growth and more investments, as laid out in the change decision. The decision not to consider the dynamic impacts in the Government proposal without giving any reasons for the decision is not in accordance with the openness and transparency of the decision-making information base.

The way in which the decision-making process concerning the dividend taxation reform evolved could not be predicted and in the end, few changes were made in the taxation of dividend income. A number of options were under consideration until the last stages of the drafting process. The changes in dividend taxation failed to simplify the tax system and the euro-denominated upper limit of the dividend taxation relief remained unchanged. Thus, it will still steer dividend distribution in companies in a manner that is detrimental to the economy. According to research findings the euro-denominated upper limit of dividends laid out in the current system slows down optimal capital growth in companies.

In the view of the National Audit Office, the changes to corporate and capital taxation were not adequately prepared before the spending limits decision of spring 2013. The Tax Department of the Ministry of Finance did not receive an explicit assignment for a thorough drafting of the changes to corporate and capital taxation and the way in which the process evolved could not be predicted. The second important observation was that public servants mainly played the role of technical experts and did not make a major contribution to the process itself and the making of the decisions.

The principles of good statute drafting were not fully adhered to. This was partly a result of shortcomings in ministry-internal steering and in cooperation. The Tax Department did not seem to have a clearly defined role in the drafting process. The impression was that the dialogue between the Tax Department and the top officials of the ministry was rather superficial. Even though the Tax Department possesses a great deal of expertise, only limited use of it was made in this process.

The National Audit Office is of the view that the Government must commit itself to good statute drafting. This is particularly important in taxation because taxation has broad-ranging economic effects and the taxation system must be examined from an overall perspective. Political decision-making must leave room for a thorough drafting process and the ministry's steering systems must support high-quality statute drafting. The National Audit Office is of the view that in the preparation of the taxation policy more consideration should be given to the assessment of overall economic effects of taxation.