

Conclusions and recommendations of the National Audit Office

Tax revenue

Summary of the compliance audits covering tax revenue

A number of tax revenue audits were carried out in connection with the financial audits of the Finnish Tax Administration and Finnish Customs between 2012 and 2015. The audits of the Finnish Tax Administration covered income taxation, unprompted taxes and tax-related fees processed on the tax account, as well as payments to tax recipients. The audits of the Finnish Customs covered the vehicle taxation of new motor vehicles and excise taxation. A system audit was also carried out on each of the audited tax types. A separate interim report was prepared on each audit.

All tax revenue audits were, in one way or another, connected with the automation of taxation. The purpose of this compliance audit was, by summarizing the audits already carried out, to provide an answer to two questions: Are the assessment provisions on the automated taxation process clear and up to date from the perspective of internal control and is the internal control of the taxation process appropriate and adequate. In the first question, the focus was on whether the provisions on tax assessment procedures are up to date and effective. In the second question, the appropriateness and adequacy of internal control has been audited from the perspective of the control procedures contained in the taxation process.

The “diligent discretionary” approach to tax assessment, which was originally laid down in the Act on Assessment Procedure in 1996, has been gradually abandoned, first in practice and then on a statutory basis. Instead of the diligent and case-by-case consideration, income tax assessment has since 2006 been based on an approach in which the tax authorities must examine the information and reports that they have received in a manner that is justified, considering the nature and scope of the matter, uniform treatment of taxpayers and the requirements of tax control. The aim of the investigation taking place in the automated processing of tax returns is to identify and select for manual processing the errors and inadequacies that are important from the perspective of the tax risk and interest.

No similar legislative changes arising from the automation of taxation have been made in the acts on vehicle taxation and excise duties even though in these tax types too tax assessment is, in practice, based on selection. In income taxation, making compromises with regard to the extensive investigation obligation also required more detailed provisions concerning tax adjustment. Furthermore, tax adjustment provisions contained in the acts on vehicle taxation and excise duties have not been updated in the manner required by the changes. The change requirements concerning value added taxation have been taken into account in the act on assessment procedure in unprompted taxes, which enters into force at the start of 2017 and which includes a provision on the selection process.

Under section 2(3) of the Constitution of Finland, in all public activity, the law shall be strictly observed. Thus, in principle the provision based on selective investigation is a major change.

In tax assessment, there has been a changeover from comprehensive investigation to the investigation of selected cases

Legislative changes arising from the automation of taxation should be on a systematic basis

The purpose of the investigation taking place as part of the automated process is to make the tax assessment and the internal control concerning taxation more effective. The effectiveness of the selection process depends on how well cases requiring measures can be identified using different selection criteria. If there is a large number of cases requiring unnecessary investigation work, the controls will become less effective. On the other hand, the audit findings show that not all errors and inadequacies affecting the calculation of taxable income can be identified by means of selection.

The aim of the Finnish Tax Administration to focus tax control on the identification of errors and abuses that, in euro terms, are the most important from the perspective of the tax gap and the grey economy has an impact on the number of selected cases and the selection criteria. The selection process is based on selection criteria that are nationally uniform and that are changed on the basis of the risk assessment process. By defining its selection criteria, the Finnish Tax Administration can set the tax control at desired level or adjust it in accordance with available resources.

Automated tax control means balancing between effectiveness requirement and uniform treatment of all taxpayers.

As a result of the selection criteria, similar cases or cases that are in the same scale in euro terms are, in principle, investigated using the same criteria. The cases remaining outside the scope of the selection criteria are, however, not investigated in detail, which means that taxpayers are not treated in a uniform manner. In taxation, the processing of the selections and the decision procedure are also steered by the deviation limits and investigation thresholds laid out in the internal guidelines of the Finnish Tax Administration. According to the audit findings, the number of selections has decreased each year, in addition to which the euro thresholds used as criteria for selecting cases for investigation have been raised. At the same time, the number of cases under investigation has decreased.

Tax legislation should be developed and automation increased with the aim of providing a basis for effective organisation of taxation process functions and internal control so that the tax gap can be narrowed, a high level of tax ethics maintained and the effectiveness of tax control ensured. This would reduce the risk of internal control in the control process and allow the authorities to focus tax control more extensively on important issues and issues where there is room for interpretation.

Simplification and clarification of the tax legislation and automation of functions and internal control would also decrease the quality-management risks associated with taxation processes.

Formal tax law provisions, such as those concerning tax assessment, are essential from the perspective of internal control as they provide a basis for internal control, while at the same time they also help to ensure compliance with material tax law. Thus, in law drafting they should also be systematically assessed from the perspective of internal control.

Internal control and risk management bring the best results when they have been integrated into day-to-day management and operating processes and into the functions of the operating units. In such situations, the most important risks can be identified, their significance assessed and the necessary risk-management solutions formulated as part of decision-making and organisation of operations. In the organisation of internal control procedures, the focus should be on preventing errors and abuses and not on identifying them and this

Tax control means balancing between effectiveness requirement and uniform treatment of taxpayers

Tax legislation should be simplified and clarified

should be taken into account in systems development. Furthermore, internal control processes should substantially reduce the likelihood that the risk will become reality or reduce the negative impacts arising from the risk. This would require that the risk, abuses, inadequacies or errors are identified in real time. Internal control is properly organised when the internal control procedures for identified risks are allocated to that part of the overall process where risk management can be carried out in the most effective manner.

Recommendations of the National Audit Office

1. Tax assessment provisions for different tax types should be systematically updated so that in them consideration is also given to the change requirements arising from the automation of taxation.
2. In the drafting of tax assessment legislation, all provisions should also be considered from the perspective of internal control.
3. Tax legislation should be simplified and clarified to the extent possible.
4. In the organisation of internal control procedures, the focus should be on preventing errors and abuses and not on identifying them. This should also be taken into account in the development of information systems.