

# Conclusions and recommendations of the National Audit Office

## Introduction and impacts of the Incomes Register

The purpose of the audit was to examine whether the Incomes Register has had the benefits and impacts that were set as its targets. The specific objectives of the Incomes Register have been to reduce the administrative burden on employers and to improve the efficiency of the authorities by making income earners' income data available to them almost in real time.

All employers in Finland report data to the register, which is used by a large number of authorities and other organizations performing public duties. The data is used, for example, as a basis for determining taxation, pension and social benefits.

The reason for launching the audit was not only the wide-ranging effects of the Incomes Register but also the fact that the first phase of the introduction of the Register in 2019 did not take place without problems. In addition to the Finnish Tax Administration and the Ministry of Finance, which are responsible for the Incomes Register, both the data providers and the data users were heard during the audit. A specific question examined was the reasons underlying the problems in the introduction and whether sufficient measures had been taken to eliminate them. The audit examined the preparation, implementation and use of the Incomes Register between 2015 and 2020, and the main focus was on the impacts of earnings data reporting, which started in 2019.

## The administrative burden on employers has not decreased as there are still problems with the reporting and use

So far, the implementation of the Incomes Register has not succeeded in achieving the targeted impacts. Although employers no longer need to submit annual payroll information returns to different actors, their administrative reporting burden has not decreased as a whole, but rather the workload related to reporting has increased. The main reasons for this are that reports must be made more often than before, they have to be corrected retroactively, and the correction and reconciliation of data is considered difficult. The problems of reporting are also visible to the users of the data in the Incomes Register, particularly because there are such deficiencies in the accuracy and quality of the data that the users have to look into separately.

The problems with the introduction of earnings payment reports in the Incomes Register have been caused by complex reasons stemming from different project phases. The project strived to meet the information needs of a wide range of stakeholders simultaneously, but during the preparatory phase, there was

insufficient understanding of how the employers' payroll administration would be affected by the scope of the data required to be reported and the obligation to report the data immediately after payment. There were also defects in the risk management during the implementation phase of the project.

Before the information content or use of the Incomes Register is significantly expanded, it would be important to improve the smoothness and ease of reporting. In addition to solving problems related to retrospective corrections, attention should also be paid to making the reports obtained from the Incomes Register better suited to reconciling earnings data. The data providers and other key stakeholders should be consulted and cooperated with in the development process in order to ensure the relevance and effectiveness of the development measures.

Although the Incomes Register Unit of the Finnish Tax Administration is not responsible for the content of the reports, it should nevertheless assess the need for centralized quality control together with the organizations using the data in the Incomes Register. It is neither appropriate nor efficient that each user has to verify the accuracy of the data themselves. At the same time, it should be ensured that all users are informed efficiently of any incorrect information detected in the Incomes Register. This problem could be partly alleviated by providing the users with an opportunity to enter the amount of income determined by control measures as so-called parallel control data in the Incomes Register.

## Up-to-date information offers opportunities

Although there have been problems with the use and introduction of the Incomes Register, the audit did not reveal any reason to question the rationale behind the Incomes Register. The old annual payroll information returns are no longer required, as up-to-date information enables new operating models. Of the users of the Incomes Register, particularly the Social Insurance Institution of Finland (Kela), the pension insurance companies, and the Employment Fund have already been able to revamp and streamline their operations by means of the data, and the Incomes Register is also considered to have wider potential. In addition, the Incomes Register enables organizations to automate their processes as long as the data is of sufficiently high quality.

In the circumstances following the coronavirus pandemic in 2020, one of the benefits of the Incomes Register was that it provided the authorities with a more up-to-date picture of the changes that took place in the employers' wage bill during the year. The data has helped the authorities to anticipate and monitor the economic developments, for example.

## The information content should be examined in relation to the needs of social security

The information content of the Incomes Register was discussed for a long time at the preparatory stage and, in the end, compromises were reached. The purpose of the information is to serve the needs of not only the recipients of previous annual returns but also other actors, such as Kela and the unemployment funds.

Therefore, the information content became extensive and detailed, but at the same time, some of the information needed for the implementation of various benefits and social security ended up being subject to voluntary reporting. The situation is partly contradictory for both the data providers and the data users. In order to make the register more useful, it should be decided whether the mandatory information content of reports should be expanded or whether the aim is to harmonize the legislation on benefits, for example by unifying the income concepts used when determining different benefits.

Although the main driver in the development of legislation on benefits is the social insurance system's own starting points, the adaptation of legislation could in any case affect the usability of the data in the Incomes Register and the administrative burden on employers. This should be taken into account as one of the starting points and as an opportunity when the legislation is reformed in the coming years.

## Recommendations of the National Audit Office

1. The Finnish Tax Administration should, in cooperation with the data providers, in particular, seek solutions that reduce the need for retrospective corrections and facilitate correcting.
2. The Tax Administration should look into the possibilities of and needs for centralized quality control and review of the reports submitted to the Incomes Register. It should also look into the possibility of prioritizing the implementation of parallel control data in the further development.
3. The Ministry of Finance and the Tax Administration should ensure that the key stakeholders of the Incomes Register have the opportunity to influence both small-scale development and the selection of larger development targets.
4. The Ministry of Social Affairs and Health should ensure that the usability of the Incomes Register is taken into account when the legislation on benefits related to the register is reformed.