

Conclusions and recommendations of the National Audit Office

Taxation procedures for self-assessed taxes

The audit was targeted at the taxation procedures for self-assessed taxes. Self-assessed taxes are taxes that the Finnish Tax Administration does not separately impose on you but that you must calculate, file and pay yourself. Self-assessed taxes include, for example, value added tax and excise duty. The Finnish Tax Administration is responsible for the taxation procedures for self-assessed taxes, while the Ministry of Finance is responsible for the steering. In the budget for 2022, self-assessed taxes accounted for about 65 per cent, or EUR 29 billion, of the state's tax revenue.

The audit examined whether the tax procedures for self-assessed taxes have been developed taking into account not only the efficiency of operations but also the principles of good governance. The audit focused on the legality and appropriateness of the tax procedures but also on whether the tax procedures have contributed to the effectiveness of the Tax Administration.

The taxation procedures for self-assessed taxes have been harmonized in line with the objectives

The Act on the Tax Procedures for Self-Assessed Taxes (768/2016) entered into force at the beginning of 2017. The tax procedures for self-assessed taxes have been harmonized in such a manner that the Act contains general provisions on the procedures as well as provisions on certain harmonized procedures, such as tax periods, tax returns, payment and imposition of taxes, penalties and appeals. Acts on individual tax types contain provisions on special procedures for different tax types and, for example, on preliminary rulings and registration. The overall legislative implementation clarifies the taxation procedures for self-assessed taxes.

One of the key objectives of the reform has been to improve the administrative efficiency

In certain special situations, the Tax Administration must also make decisions on self-assessed taxation. According to the audit findings, both the legislation and the practical taxation activities have striven to minimize the number of tax decisions, particularly in the case of value added taxation. Decision-making situations where a tax is imposed based on an assessment or where a decision is corrected for the benefit of or to the detriment of the taxpayer are particularly important. The regulation related to the taxation procedure also offers taxpayers several opportunities to submit a tax return and thereby to avoid assessment-based

taxation. One of the key objectives of the reform of tax procedures has been to improve the administrative efficiency.

What is problematic and open to interpretation in individual procedures is, in particular, whether a change in taxation is an authority-initiated adjustment involving penalties or a correction made by the taxpayer. Equal treatment of taxpayers requires that a similar procedure should be applied in similar situations. An authority-initiated adjustment is administratively more burdensome, as it requires manual processing and the making of a tax decision. An authority-initiated adjustment is also less favourable to the taxpayer, as the penalties are higher than when the taxpayer files a corrected return.

On the basis of the audit, it has been possible for a taxpayer to correct their tax return even if it has been the authorities that have raised the matter in their control. The audit shows that the line between an authority-initiated and a taxpayer-initiated taxation change is blurred. According to the Tax Administration's instructions, the distinguishing factor is whether the authorities have started taking control measures. Control measure is a legal concept, but it is not clear what it refers to. Nor is it clear when control is considered to have been started. It is possible to process a matter and request a report although control measures have not yet been officially started. It seems obvious that a taxpayer has a wider opportunity to correct their taxation themselves if there is unanimity of opinion between the taxpayer and the tax authorities.

The Tax Administration's control culture has changed

The control culture in the Finnish Tax Administration has changed clearly during the period that the Tax Administration has served as the national tax authority. Tax control plays an essential role in securing the accumulation of tax revenue, and this has been emphasized in the impact targets set for the Tax Administration. However, the working hours spent on tax control have decreased in recent years. Although performance volumes in tax control have increased during the same period, the quality and scope of the control remain partly unclear. The development of tax control has focused on combating the shadow economy.

For a long time, the Tax Administration aimed to focus particularly on controlling large and international enterprises, as this was considered to have a significant fiscal impact on securing tax revenue. Focusing on the control of large enterprises was first dispensed with by modifying the wordings of performance agreements and, eventually, by completely removing the reference to it. The change took place as the focus moved to the proactive guidance procedures of the Large Taxpayers' Office, such as deeper customer cooperation and proactive discussions.

Since 2006, automated taxation has applied a procedure in which the tax authorities must examine the information and reports that they have received in a manner that is justified in view of the nature and scope of the matter, equal treatment of taxpayers and the needs of tax control. This is referred to as the selection procedure. A similar provision has been included in the Act on the Tax Procedures for Self-Assessed Taxes.

The National Audit Office finds the provision permitting selection significant in principle. It allows the level of accuracy in examination to differ between automated taxation and manual taxation or imposition of taxes. The change in the examination method has been justified in detail in the government proposal to amend certain provisions related to the taxation procedure (HE 91/2005). The justifications in the government proposal should also guide the selection procedures in self-assessed taxation. The audit found that the control of VAT returns per tax period had decreased substantially. In addition, the control was found to be only loosely based on the provision concerning selection. According to the National Audit Office, a procedure where only some of the VAT returns selected by the same control rules are controlled does not contribute to the achievement of the objectives of consistent taxation. The risk of the procedure is that the guarantees of good governance are not realized and the taxpayer's legal protection is jeopardized.

Effectiveness is reported on extensively based on different indicators, but the data are difficult to compare

The key indicator illustrating the effectiveness of value added taxation is the handprint of tax control. The handprint illustrates the impact that the tax control has had on the amount of taxes. In its final accounts of 2021, the Tax Administration reported that the handprint of VAT return control amounted to EUR 265 million (EUR 244 million in 2020), of which 86 per cent was attributable to automatic reminder letters and assessment-based taxation and 14 per cent to manual work. Assessment-based taxation can be cancelled afterwards when the customers file corrected returns. According to the updated information received from the Tax Administration, the handprint of VAT control amounted to EUR 128.5 million in 2021 and EUR 138,2 million in 2020 if calculated in the same manner as when the final accounts were issued. The handprint of VAT control presented in the final accounts of the Tax Administration thus gives a materially erroneous picture of the effectiveness of the control.

The Tax Administration monitors its operations and effectiveness based on several indicators and key figures. The general problem has been that the definitions or calculation methods of the indicators or key figures change frequently, which complicates their comparability.

The prerequisites for tax control should be improved

The taxation process for self-assessed taxes is simple in principle and largely automated, but the substantive provisions on value added taxation are highly complex overall. This is a difficult equation, and attempts have been made to solve it in many ways. The information content of the current tax return is very limited. A project has been underway for several years to improve the information content of the tax return in the first phase and, in the second phase, to collect receipt or invoice-specific material from taxpayers in electronic form.

Ultimately, this relates to reducing the tax gap, which has been a central and established impact target for the Tax Administration. The VAT gap is obvious, even though its definition and calculation methods vary.

The guidance and control methods of the Tax Administration have expanded without legislative amendments

The Tax Administration has several different guidance and control methods at its disposal to influence the accuracy of tax returns in advance, in real-time or, eventually, in arrears within the deadlines set for adjustments by law. Only a few guidance and control measures used by the Tax Administration, such as tax audits, are laid down in the Act on Tax Procedures or there are general provisions on them, such as on the authorities' duty to provide advice in the Administrative Act. In addition to the fiscal effectiveness and administrative efficiency of the different methods, the Tax Administration should pay attention to equal treatment of taxpayers.

The development efforts by the Tax Administration, which have been underway for several years, have had an adverse impact on the effectiveness of its basic tasks. In 2021, as a follow-up to legislative projects and the information system reform, the Tax Administration introduced a new organization and operating model, which is challenging. One of the key features of the model is the centralized guidance and control function, which relies heavily on the information system that has been introduced gradually at the Tax Administration. It will only be possible to assess the effectiveness of the centralized guidance and control function in the coming years.

The development of guidance and control methods should favour procedures that enhance the efficiency of the taxation process while also promoting the correctness of taxation and equal treatment of taxpayers.

Recommendations of the National Audit Office

1. The Ministry of Finance should carry out a comprehensive assessment of how the prerequisites for the control of self-assessed taxes, particularly value added taxes, could be improved. The assessment should also take into account the tax control tasks of the Finnish Customs in excise taxation.
2. The Ministry of Finance should assess the need for regulation governing the Tax Administration's new methods of guidance and control.
3. The GenTax information system and the accounting of the Tax Administration provide an opportunity to monitor the effectiveness of taxation comprehensively and systematically. The Tax Administration should develop and apply the indicators and key figures in such a manner that comparability between different years is retained.