

Tax Proposal Service of the Finnish Tax Authority

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INTRODUCTION

Taxation is one of the key functions of any state. Without a working tax collection system, any state would have big difficulties in fulfilling its responsibilities. Even though taxation is a service with negative demand (Kotler, 1997) at an individual level, most taxpayers admit that taxation needs to be done. As an unpleasant issue, it should be taken care of as efficiently and with as little effort as possible needed from the taxpayer's side.

Our article, as well as the tax proposal system to be introduced, focuses solely on the personal income tax. The idea of the tax proposal system is to take away the hard work from the taxpayer: He or she does not have to work out anything for the taxation purposes in the normal case. The taxpayer's role is rather to accept the taxation information and decision that is given to him or her, or to demand changes to the taxation. In that case, he or she has to deliver the evidence. In the long run, the Web-based interfaces are too on the Finnish tax-authority's (shortly referred to as taxman in the rest of this article) development list.

Taxation is a very information intensive activity. It needs the support of huge information and other systems. Introducing changes to this environment, which is also heavily regulated, is a demanding task. Yet the efficiency and effectiveness of the taxation system is a key success factor for any state, and innovations are needed in a constantly changing environment.

As many countries try to create Web-based tax return arrangements (Vassilagis, Laskaridis, Lepouras, Rouvas, & Georgiadis, 2003), Finland has chosen another strategy to streamline the taxation process. In Finland, the interface to the final taxpayer, to the individual, remains so far paper-based, but massive system integration between the systems of the tax authority and the various payers of salaries and other income to the final taxpayer has been established.

In this article, we tell how the Finnish tax proposal system works, how tax authorities have been able to

develop and introduce the tax proposal system, and what kind of benefits it has brought to the taxman and to the taxpayers.

We represent that the tight information system integration in one governmental agency does not give competitive advantage. The integration has to go much deeper and wider into intergovernmental networks (G2G) and government to business networks (G2B) (Scholl, 2004).

Our main conclusions are:

- Citizen-oriented process design and system development can give efficiency and effectiveness benefits for administration too. The Finnish approach of first streamlining the taxation processes and regulation and then later giving electronic access to the taxpayer to the taxation data is sensible.
- To get the systems automated and processed streamlined, has meant that the very structure, process and basis of taxation has been changed in some details. A Finnish success factor has been that political decision makers have let this happen.
- The Finnish approach has been possible because of a wide nationwide consensus and co-operation. The selected approach has benefited from the trust the taxman and other authorities enjoys in the society. The new system further strengthens the goodwill of the taxman among taxpayers. There is a positive interaction going on.
- Adam Smith's over 200 years old principles of good taxation are easily implemented with computerized taxation methods.
- The massive system integration effort on the background has cost a lot, not just to the taxman but to the employers and many other parties too. However, all parties have seen the increased efficiency of taxation worth the investments.
- Information systems with clear strategic advantage take years if not decades to mature. This has too been the case with the Finnish taxation system.

Table 1. Less corrupted countries (Transparency International, 2005)

Rank	Country
1.	Finland
2.	New Zealand
3.	Denmark Iceland
5.	Singapore
6.	Sweden
7.	Switzerland

Table 2. Readiness to utilize ICT in different countries (Soumitra & Amit, 2004)

Rank	Country
1.	United States
2.	Singapore
3.	Finland
4.	Sweden
5.	Denmark
6.	Canada
7.	Switzerland
8.	Norway
9	Australia
10.	Iceland

BACKGROUND

Finland has been number one in the list of less corrupted countries for years. In Table 1, countries which are less corrupted are listed. Citizens trust the Finnish public administration in general and the authorities have understood that trust generation and maintenance demands an ongoing process which has to be catered for (OECD, 2003).

The trust towards authorities in general and the taxman in particular has been a key success factor in Finland. Citizens can be sure that everyone is taxed on the same basis of rules and that the paid money will go to the intended recipients. The outcome of taxation is public, and anyone's paid taxes and the key figures leading to the taxation are public data that can be accessed by anyone. As compared to many countries with federal structures, Finland has it easy: there is just one taxation basis. In addition, citizens and companies conform to laws relative literally. The size gives some flexibility too: in Finland there are only 5.3 million inhabitants.

Finland has also performed well in the lists comparing ICT infrastructures in different countries, as presented in Table 2.

Table 2 is based on relatively gross data on some basic network technologies. Deeper in the background is the fact that Finland is a cashless society, where all parties are used to electronic money transfers. These always leave behind the documentation needed even for the taxation purposes. At a concrete system level, employers are, for example, used to EDI-type and later Web-based connections to banks and have the needed expertise and infrastructure. It has not been a big step to adapt the same resources to connections to the systems of the taxman. The well-functioning Finnish banking network is a cornerstone for the tax-related money traffic (Kallio, Mallat, Riipinen, & Tinnilä, 2005). Currently all taxation related money transfers are made by electronic account transactions.

The system we discuss here is a result of a long development. If we take a historical perspective, Finland

has been able to collect the best parts (and maybe some of the worst too) of the administrative systems of both the Swedish and Russian empires, as Finland has been a part of both empires before the independence gained in 1917.

Another part of the development is evolution of information systems. Already as early as 1947 the first punch card-based computers were installed to the Finnish tax authority premises. In the 1980s a real investment boom occurred, and ICT investments in the Finnish taxation grew 18-fold in the period between 1980 and 1987 (Lehtinen, 1995).

One essential issue to develop taxation systems is the Finnish labor market system and the large-scale cooperation within it. Government has traditionally taken part in the income settlement negotiations which are not focused on wage issues only. Taxation and developments in working life have also been topics for many years.

In Finland, labor union membership fee is directly deducted from wage of the labour union members¹ by the employer and employees can deduct the fee from the taxes. The clearance of these union membership payments has then been sent to labor union and to the tax authority. Again here we have detail that has been contributing to the system integration built.

What anyway is maybe the most important development is the system integration between the different taxation interest groups. Those are banks, employers, private pension institutes and other government agencies (especially Population Register Centre, National Board of Patents and Registration and Social Insurance Institution).

CHARACTERISTICS OF GOOD TAXATION

Adam Smith (1723-1790) was one of the first to pay attention to good taxation principles. His recommendations for good taxation still hold today (Smith, 1993):

- **Equity:** Every subject of the state ought to contribute towards the support of the government, as

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