

MOTIVATION RATHER THAN ENFORCEMENT - WIDER, MORE EFFECTIVE APPROACH

Airi Jansen-Uueda

Estonian Tax and Customs
Board

2017 December



IOTA

Intra-European Organisation
of Tax Administrations

MOTIVATION RATHER THAN ENFORCEMENT – WIDER, MORE EFFECTIVE APPROACH

By Airi Jansen-Uueda



Airi Jansen-Uueda

Head of Recovery Special Proceedings Division

Revenue Department

Estonian Tax and Customs Board

+372 676 1050

airi.jansen-uueda@emta.ee

Estonia is an e-country with simple apps to get essential goods with more and more administrative services, procedures and systems which turn over to further automation. Let's take a quick look at the most recent developments we've launched regarding enhancing tax debt recovery procedures. You will not read here much about the different possibilities of recovery rather than prevention of tax arrears to occur, as we believe that effective tax collection and recovery is only possible through effective prevention, also prevention of the debt to increase.

We have 10% of the companies giving 90% of all tax revenues. We consider it very important to know our taxpayer behaviours and support as much as possible the growth and sustainability of the businesses. Behavioural economics shall be considered. We analyse not only how we will get the best results by approaching the taxpayer but we are actually counting the clicks they make regarding public automated services, as we take the taxpayers approach into consideration in any of our developments. It is very simple rule – if it takes too much time/too much of an effort for a taxpayer to find the proper tool from our website, then the solution is not

there. No matter how much we have invested into this tool development. It must be improved.

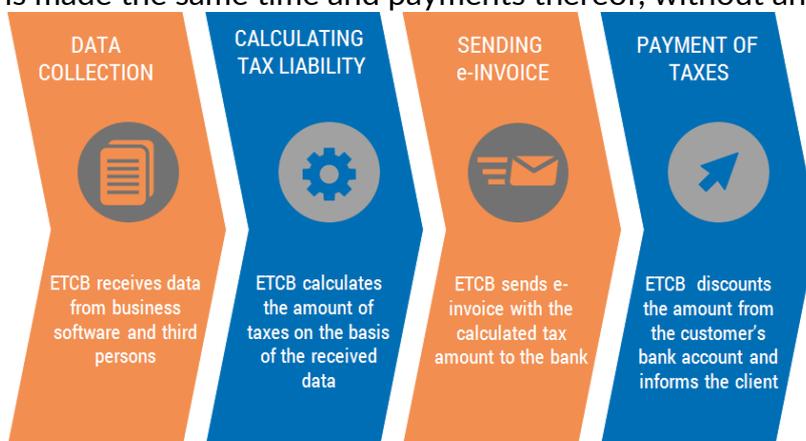
Public sector must keep up with the economics (rather than to slow it down) and of course to make good revenue. It is all about comfortable self-service. We can summarise the guidelines into 3 principles: process automation, easy to use and self-service.

Tax returns as information-based exchange of data

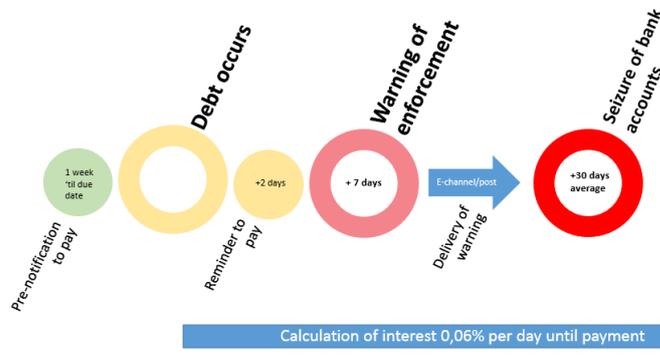
In April this year a revolutionary step forward was made in connection with the e-services provided for taxpayers. We have set a goal to free taxpayers from submitting any tax returns as the state has enough of information that can be used more wisely to prevent the duplication of data processing. It seemed to be an unreachable task, as so many different platform systems needed to be matched and principles changed. But we believed in unlimited prospective concerning datamining and streaming not only in between different systems but between public and private sector all in all. And here we are - first very good example of public-private partnership solution has been launched. It is a declaration free approach that gives possibility for approximately 38 000 small and medium enterprises to use comfortable automation regarding labour taxation. Latest users: November showed the monthly activity over 200 enterprises on behalf of over 400 people. The solution concerns: salary, board member and contracts fees, sickness benefits, social tax and dividend payments.

Filing tax returns through detached declaration is becoming a background operation. Rather than having exchange of numerous declarations we are about to aim the cooperation to have better information exchange. Fully declaration free taxation shall be achieved, so that the taxpayers can concentrate more on their lives and leave entrepreneurs more time to handle and drive their investments rather than spend their time monthly on filling and submitting us the required data.

It is a win-win situation – with login to bank account for the payroll payment and single click thereof we gather the information on-line and the tax calculation analysis is made the same time and payments thereof, without any taxpayers extra input to it.



We have improved the automation of the process of notification and recovery (called IRIS). Recovery procedures are almost fully automated. From this autumn also e-seizure application was launched, as of the beginning of Y2018 fully completed. As a result the debtor cannot open any other bank accounts in other credit institutions without having automated seizure applied and the information exchange is almost immediate.



IRIS visualisation: Through IRIS the notification of a tax obligation is given before and after the due date by e-mail, text message or by post. Through an e-environment we deliver about 85% of all documents and by automatising of the notifications we have decreased our costs about 65% in the last 2 years.

The information exchange regarding e-seizure project includes 4 different services – whether there is a bank account, what the balance of the bank account is, bank statement for the chosen period, information about people having access and rights regarding a debtors bank account. 3 of those services will be fully automated on the bank end, the access Query will be partially manual, since there is so much data to be combined.

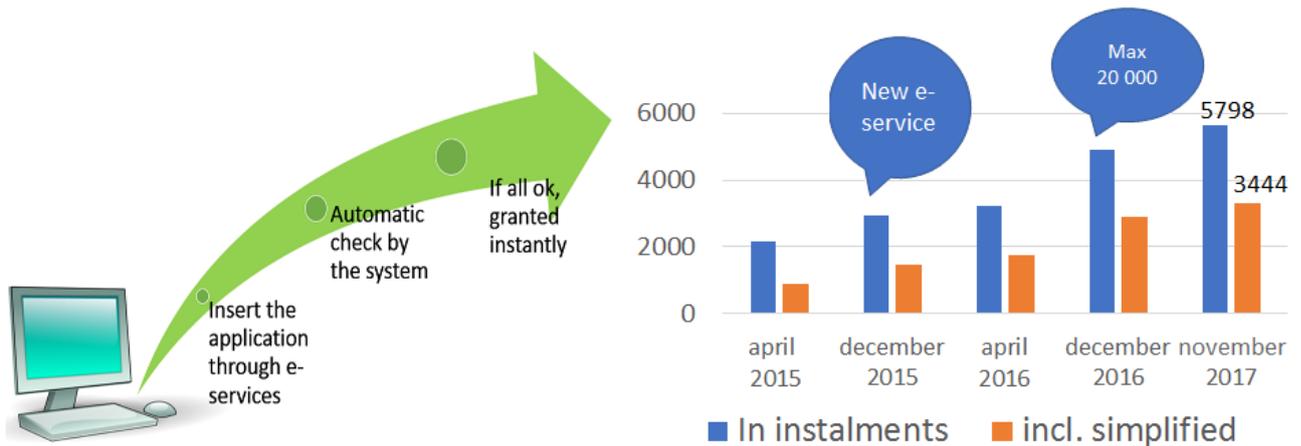
The idea of the e-seizure project was to automate the services regarding bank account seizure and information exchange as much as possible. The seizure part will be fully automatic on the bank end and semi-automatic on the tax authority side (since we will still be able to send seizures manually in addition to the automated process). Also, it will make the seizure more flexible and taxpayer-friendly, because we will be able to react faster if there are any changes in the recoverable amounts. The amendment information will also be sent automatically, compared to the fact that earlier we sent amendments manually and with some delay. Also, with this project we provide the debtor with a better overview of their debt management.

By the end of this year **Danske Bank A/S Estonia branch** and Luminor Bank AS will participate, other partners can join accordingly to the completion of their developments.

Payment by instalments automation

We provide instalments agreements if taxpayer meets difficulties to keep up with the due date of tax payments and is consistent with the respective criteria. It is rather proportionate and in the benefit of the administration not to have to invest into enforcement procedures of tax amounts that will be paid accordingly to the

instalment plans the nearest. As 93% of the debtors each have the tax debt less than EUR 10 000, it is most effective if these instalment plans are automated and initiated themselves (so called simplified graphics). The automation was launched at first with debt amount up to EUR 10 000 with the longest period of 24 months. Adapting to the expectations of the taxpayers we have changed the criteria in December 2016 by increasing the debt amount up to EUR 20 000 and by shortening the period to one year. As a result the number of graphics is increased and the compliance is even higher compared to previous periods. Automated instalments solution has given a behavioural insights effect – “if I have made the obligation myself, I rather comply!”



Conditions for self-service:

- Tax amount (debt + future claims) + interest 50<x<20 000 euros (we changed the max amount)
- Payment period up to 12 months
- No unpaid fines or penalties
- No missing declarations
- No appeals
- No bankruptcy
- No annulment of previous plans within last 6 months
- No joint liability
- No other current payment plans

E-invoices project development

Internet bank solution, instalments and direct payment links in e-services are today's solutions. Whilst solving the need to have simplified approach to instalments plans, it has been important to launch e-invoices readiness regarding payments for public services. This expectation has grown very fast in Estonia, it is rather common to have an e-invoice solution and automated payments thereof (direct debiting of bank accounts). Tax obligations shall be paid regularly as simply as other payments within private sector, without any further input by the taxpayer. When referring to e-invoice, metadata information exchange is considered. By Y2019 the approach of improved direct payment link, payments by credit card or text message and e-invoice shall be developed.

We have ID-card for every citizen and also e-residency card to identify and sign the documents. We have now gone further, to widen the possibilities for quicker conduct – **development of the use of digital stamp**. As we have 99% of taxpayers using e-solutions in taxation communication and only 1-3% still visits our offices or uses the call center, 75% of this 99% uses self-service and other use e-MTA environment, the sphere of influence of this solution is considerable. The idea of the digital stamp is to give taxpayers quick possibility to have any officially confirmed certificates or other statements in a click without getting into contact with the administrative organ nor delay from feedback.

Automation of the certificate of tax data

There are many opportunities to improve recovery and collection, there will still be wide range of transactions and relations that public sector cannot intervene to regulate. We believe this part of business environment can regulate itself if the information is used wisely. As of 2017 we have made the possibility for business partners to determine very simply if they are trustworthy or not. This certificate is fully automatic and can be extracted in seconds to provide for the other party. There are different sets of data for legal entities and for natural persons and data can be shown up to 26 months back coming in xml or pdf format. Very useful if applying for the credit or other service that requires an overview of the company's tax records.

Workforce, wages and payment data

		Employment Register data	Income and social tax return (TSD) data				
Year	Month	Number of persons registered with the Employment Register **	Number of persons receiving payments	Number of persons receiving wages	Gross amount of wages payments ***	Average wages ***	Number of persons receiving other payments
2017	January	10	10	10	6 982,00	698,20	0
2017	February	10	10	10	8 046,00	804,60	0
2017	March	10	10	10	7 598,00	759,80	0
2017	April	10	No data available *				

* The person did not submit TSD return for the respective taxation period or has no obligation to submit TSD return.

** Number of employees with regard to whom there was a record in the employment register valid for at least 1 day of the respective month.

*** The sum consists of payments with the following codes: 10, 11, 12, 13, 15, 17, 18, 19, 20, 21, 22, 23.

**** The sum consists of payments with the following codes: 14, 16, 24, 32, 33, 34, 35, 36, 50, 51, 52, 53, 54, 55, 56, 57.

Explanation of the codes can be found in the table of payment types on the website of the Tax and Customs Board at: <http://www.emta.ee>.

For natural person, the data that can be shown on the certificate:

- *Income based on income tax return*
- *Payments declared by the employer*
- *Entries into the employees register*
- *Payments of dividends*
- *Tax debt*

For legal entities, the data that can be shown on the certificate:

- *payroll and salary payments*
- *Data from VAT declarations*

- Data from the report for intra-Community supply of goods
- Tax debt

Taxpayers can choose the data and send it to the interested party

Forecasting enterprises' performance: the state can react to risks thus supporting business

If all of the data is used wisely, taxpayers can really take advantage of them properly – why not to make it as recognition tool for businesses.



*Business reflects itself! This is what we call the **Audit of small business in the future.** In development.*

Our activities are aimed at increasing the future tax base. We can say that taxes are paid rather than collected as a proof that tax collection solutions can be efficient and also convenient for people, businesses and Estonian state.