

GOVERNING FINNISH TAXATION ELECTRONICALLY

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The research question

“Which have been the critical success factors in the introduction of modern ICT (information and communication technology) to the Finnish tax administration?”

Governance structures

Governance is always implemented to some kind of structures. The concept of a governance structure is by no means settled or well defined. We define a governance structure here as “a structure giving meaning and rules to an exchange relationship”.

Lately we have seen many writings simply stating that governance structure is the same thing as management. Governance issues would be those of management issues. We strongly believe and stress that management is a different concept from governance structures, when of course management is needed in the case of governance structures, and governance structures too exist in management.

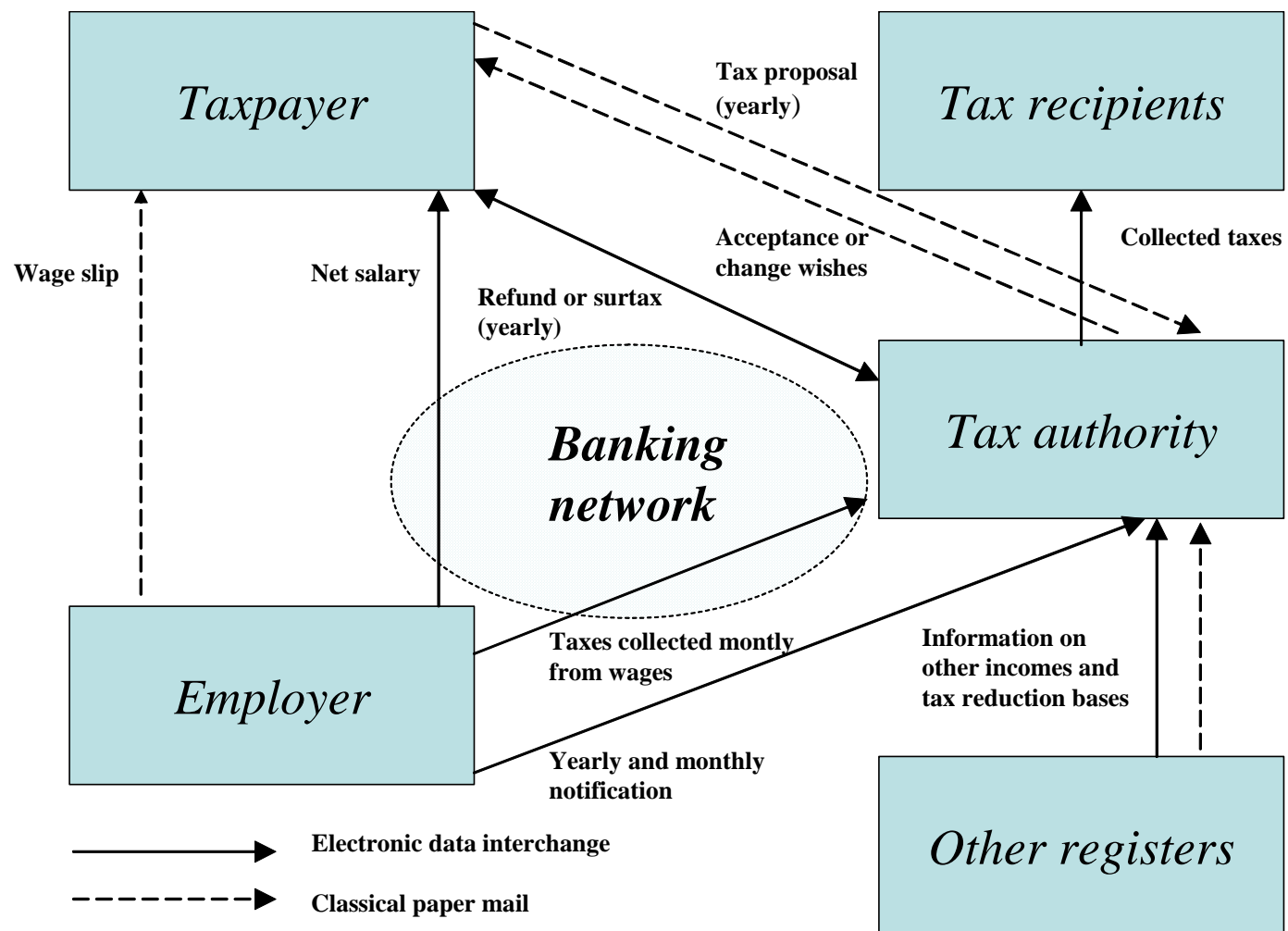
The term *structure* refers to something stable that will last over a period. Governance structures are sure to change over time, but economising exchange relationships necessitates that governance structures are of lasting nature. Should governance structures change all the time, no exchange relationship would be on a permanent basis.

With *meaning* and *rules* we refer both to the motivation and *guidance functions* of exchange relationships. As governance structures are there to guide exchange relationships, it is natural to expect that they try to foster them.

The *rules* or *guidance functions* contain three types of entities

- rules on how an exchange relationship can be entered
- rules on how to perform an exchange relationship
- rules on how to control and follow-up an exchange relationship.

How the Finnish tax system works



Statistics on the electronic activities of the taxman

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Year	Tax man's Used Persons	Cost of Personal Taxation for the State	Number of Tax Proposals sent	Tax Proposals of total personal taxation cases	Returned Tax Proposals of sent Tax Proposals	Number of Employees' E-notifications received by Taxman
2000	6 265	95 M€	3 002 000	70 %	25 %	540 000
2001	6 270	102 M€	3 037 000	70 %	26 %	725 000
2002	6 323	112 M€	3 094 000	70 %	24 %	1 420 000
2003	6 297	109 M€	3 127 000	70 %	24 %	1 980 000
2004	6300	110 M€	3 140 000	71 %	25 %	3 136 573

Cornerstones for the Finnish taxation system

- Best practices both from the Russian and Swedish empires integrated
- A well-functioning banking system
- Labour market favouring system integration
- Deduction of union membership fees as the traditional application
- Heavy investment to information processing facilities by the tax authorities
- Heavy system integration between the tax recipients

Developments in the Finnish banking system

1939	Introduction of post giro transfer
1942	Introduction of bank transfer
1962	Salaries first time paid to banks
1970	On-line systems to bank branches
1971	Introduction of automatic cash dispenser machines
1978	Finland joins the SWIFT-network
1980	Introduction of the Bank Debit Card
1984	Introduction of home terminal services
1990	Nationwide network for automatic banking teller machines
2000	Introduction of the International IBAN account number

Conclusions

- Electronic taxation systems are not different from other information systems with strategic capabilities. All such systems are born out of a long – maybe decades long – evolution and hard work. They are not designed at once, but develop through small incremental logical steps.
- Work within just the tax authority is not enough: wide-scale inter-organizational system integration is needed. Employees, employers, the banking system, the tax recipients and labour organizations must all be integrated to a system, and the flows of information between them must be carefully designed and scheduled. The system must too be flexible, and it must be maintained all the time.
- Too much focus on data privacy would be paid here, the whole system could not work. For example in the field of health care information systems we see too much developments, where data privacy is a threat to the efficient systems integrating patient data. Legislation is of course giving the base for data privacy issues.
- Finally, the society as a whole must be supporting the work towards an efficient and flexible taxation system.
- Taxation must be an accepted function of the state. Even though paying money is always not nice for the individual, they can understand through national consensus and targeted education work, that taxes are an integral part of a modern functioning society.
- From the government side, there must be a willingness to change taxation governance structures, models, processes and goals as the society develops. Sometimes modern ICT solutions should have even a small impact on these issues.