

**Estonian Tax and Customs Board**

**STRATEGIC DEVELOPMENT**

**PLAN 2019**

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Tallinn 2019

# INTRODUCTION

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## OVERVIEW

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The purpose of Estonian Tax and Customs Board is to administer state revenues, implement national tax and customs policy and protect society and legal economic activity. The state has placed two main expectations on us: to collect tax revenue and protect society from the threats of shadow economy.

In order to fulfil these two tasks we will increase voluntary tax compliance in Estonian society, aiming at the residents' voluntary fulfilment of their civil duty to pay taxes so as to enable functioning of Estonian state. To ensure high tax compliance, we have set **four main strategic directions** with the help of which we define our day-by-day operative activities and leading our organisation towards the desired vision.

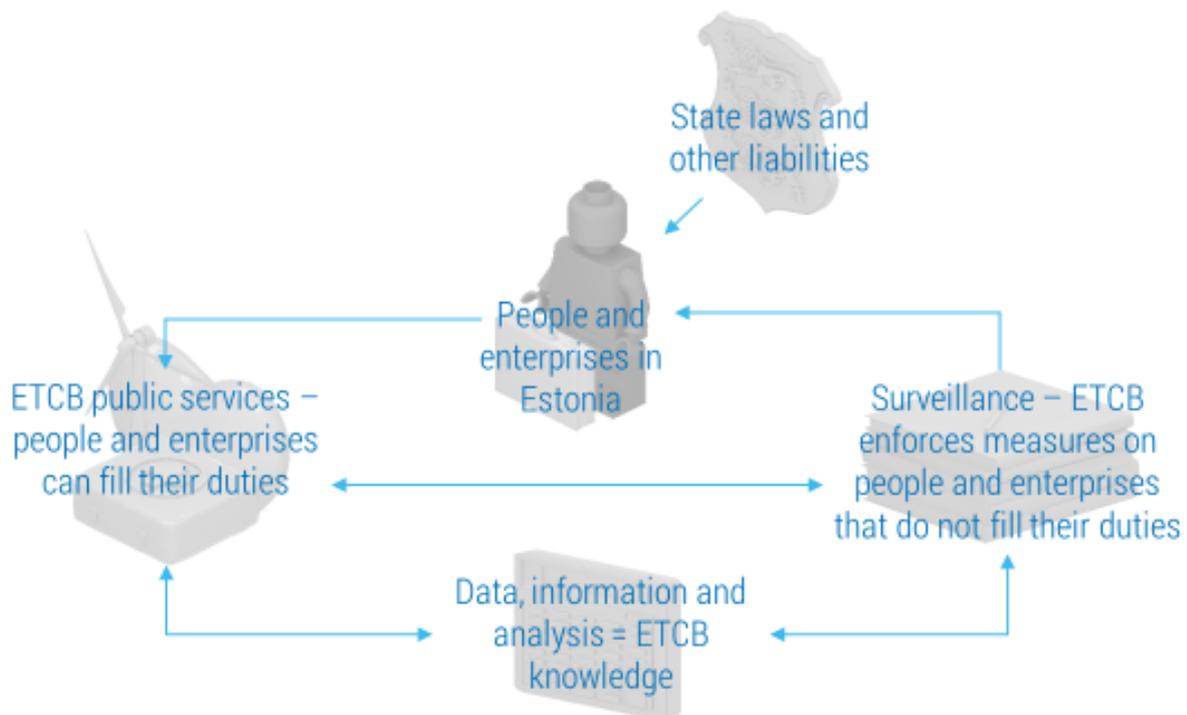
- **Willingness to pay taxes:** we will increase the willingness to pay taxes in **Estonian society** by being a trustworthy cooperation partner to taxpayers.
- **Simple and convenient public services:** we will offer **all taxpayers** streamlined means to perform their obligations. Services provided by Estonian Tax and Customs Board motivate people to comply with their tax and customs obligations in a correct manner.
- **Equal tax competition and protection of society:** surveillance over **problematic taxpayers** is efficient and systematic. Tax evasion and avoidance is complicated, cumbersome and expensive.
- **Pioneering organisation and developing people:** the **people of the Tax and Customs Board** are dedicated and professional, collaborating with each other in achieving the organisation's goals.

These **strategic directions** cover the operational objectives of our people and organisation fulfilled through the performance of our day-by-day duties. From the operational objectives we have selected **focuses** for 2019. Systematic management of these themes will enable us to achieve a great impact on the accomplishment of our strategic goals. These focuses are reviewed and updated each year.

## ESTONIAN TAX AND CUSTOMS BOARD IN 2019

The strength of the Tax and Customs Board lies in a capability to fulfil the tasks given by the state, to generate new ideas and successfully implement developments. Our activities are driven by challenges and opportunities emerged with rapid changes in the world as well as by our high ambition and clear principles of action. Therefore, we will ensure convenient and efficient tax collection and the protection of economic environment for the benefit of people, enterprises and Estonian state.

Estonian state has imposed a number of obligations on people who live here as well as on enterprises that operate here. That ensures the functioning of the state. Public agencies (including Tax and Customs Board) enable to fulfil these obligations.



*Figure: the role of ETCB in society*

Implementing its tax and customs policy, the state has placed two main expectations on us: to collect annual state revenues and to ensure that our economic environment is as fair as possible by means of decreasing shadow economy and reducing the tax gap. The fulfilment of these two tasks ensures the receipt of state revenues so that the state can use taxpayers' money to offer public services.

From our point of view, the ideal is a situation where all people and businesses in Estonia perform their tax and customs obligations voluntarily and there is no need to remind them thereof. For that purpose, Estonian Tax and Customs Board has established a vision i.e. the desired future perspective according to which Estonia is a state with the highest tax compliance in Europe. In a state where tax compliance is high, residents perform their tax and customs obligations voluntarily, duly and correctly, because paying taxes is a social norm and everybody understands their duty to contribute to the availability of common benefits and the development of Estonia.

Aspiring to the position of a state with the highest tax compliance rate in Europe, we will approach to Estonian society by segments of four target groups: Estonian society as a whole, all taxpayers, problematic taxpayers and the people of ETCB. In order to achieve the desired vision and play our role in society, we have elaborated four strategic directions, each of which focused on one of the four strategic target groups. With the help of these strategic directions we have defined our day-by-day operative activities.

The largest target group whose knowledge, attitudes and behaviour we wish to influence is **Estonian society**. In our activity we abide by the principle that taxes are paid, not collected. This means that the members of society are ready to pay taxes voluntarily and understand the necessity of paying taxes. Moving in the strategic direction **willingness to pay taxes** we endeavour that people would perceive the importance of paying taxes and want to do so. It should be a cooperation based on trust, because good relationship between a tax authority and taxpayers is one of the most significant determinants of tax behaviour.

**For all taxpayers**, we are making the process of paying taxes as simple and convenient as possible, because favourable customer-experience is in close correlation with voluntary tax compliance. Paying taxes must be easier than tax avoidance and evasion, therefore one of our main directions is to **offer simple and convenient services** to all taxpayers, which is supported by modern technology, including automation. We are one of the most efficient tax collectors due to digital solutions developed for this purpose. Our e-services enable us to simplify the performance of tax obligations whereas automation minimises the risk of errors.

**For problematic taxpayers** whose actions cause inequality in the economic environment, we have surveillance activities in place and our principal aim is to **guarantee equal tax competition and protection of society**. The main motivation of tax fraud, smuggling and other cross-border crimes is financial gain. Therefore, when dealing with problematic taxpayers we hold the principle that unfair behaviour should be so costly and cumbersome that tax avoidance

and breach of law would not pay off. Our strength is the use of wide spectrum of activities - from soft measures (consultations, contacts) to purposeful punishments. In order to achieve the best possible result, surveillance activities must be well targeted, as efficacious as possible and carried out systematically.

The fourth strategic direction of ETCB mostly focuses on **the organisation and development of its people**. We wish to ensure that the employees of ETCB are dedicated and professional, capable of achieving the organisation's objectives in good collaboration. The strategic direction **pioneering organisation and developing people** cover, among other things, the constant development of the organisation and support to internal diversity and innovation. We guarantee the working environment to where competent and dedicated people want to come and contribute to the development of Estonia by doing the work that is interesting for them.

## OUR MISSION, VISION AND MANAGEMENT PRINCIPLES

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This chapter phrases the mission and vision of Estonian Tax and Customs Board by which we abide in the management of our organisation. Strategic orientation and objectives spring from the mission and vision of Estonian Tax and Customs Board.

**Mission** formulates our role, i.e. our purpose in Estonian society:

### **Convenient and efficient tax collection and protection of economic environment for the benefit of people, enterprises and Estonian state**

We measure the performance of our mission through the fulfilment of the state's expectations: collecting taxes and reducing the tax gap (see page 10).

**Vision** formulates our desired future prospective, which we wish to achieve through strategic activities:

### **Estonia is a country with the highest voluntary tax compliance in Europe**

Tax compliance in our interpretation is the rate which expresses taxpayers' compliance with the taxation law and other tax and customs precepts. Voluntary tax compliance presumes that taxpayers themselves understand the necessity of paying taxes and obeying rules, and so fulfil their civil duty without the state's interference. Voluntary tax compliance should be considered the ultimate goal of each tax administration, because in a state with high tax compliance there is a strong desire and willingness to pay taxes honestly and, by doing so, to contribute to the common benefits. ETCB's important role is to lead Estonia to the position of a state with the highest tax compliance. This challenge requires novel ways of thinking, innovative working methods and more efficient solutions.

We measure movement towards our vision by two indicators:

- Achievement of the goal of being a state with the highest tax compliance depends on the relations between the tax authority and taxpayers. Being a trustworthy and supporting collaboration partner, we will be able to ensure people's assurance on tax and customs matters. Therefore, we have set the goal of maintaining **high level of reliability in Estonian society**.
- If people fulfil their obligations voluntarily and correctly, the need for using additional measures in tax collection will decrease. That is why we have set the objective of

collecting tax revenues **as efficiently as possible**. Today, we are one of the most efficient tax collectors among the OECD countries: in 2018 our administrative cost per 100 euro of taxes collected was 37 cents.

**The management principles** agreed upon reflect the organisation's main values and are expressed in the management of the organisation, which help ETCB perform its mission and reach the desired vision.

**Innovativeness** i.e. the capability to generate novel ideas, upgrade the existing situation and successfully implement the developments is one of ETCB's strengths. We believe that a good will and clear vision help us succeed in whatever we want to achieve.

**People orientation** creates a working atmosphere that is characterized by trust, employee-friendliness and supporting development. We reckon with employees' needs in every decision in the organisation.

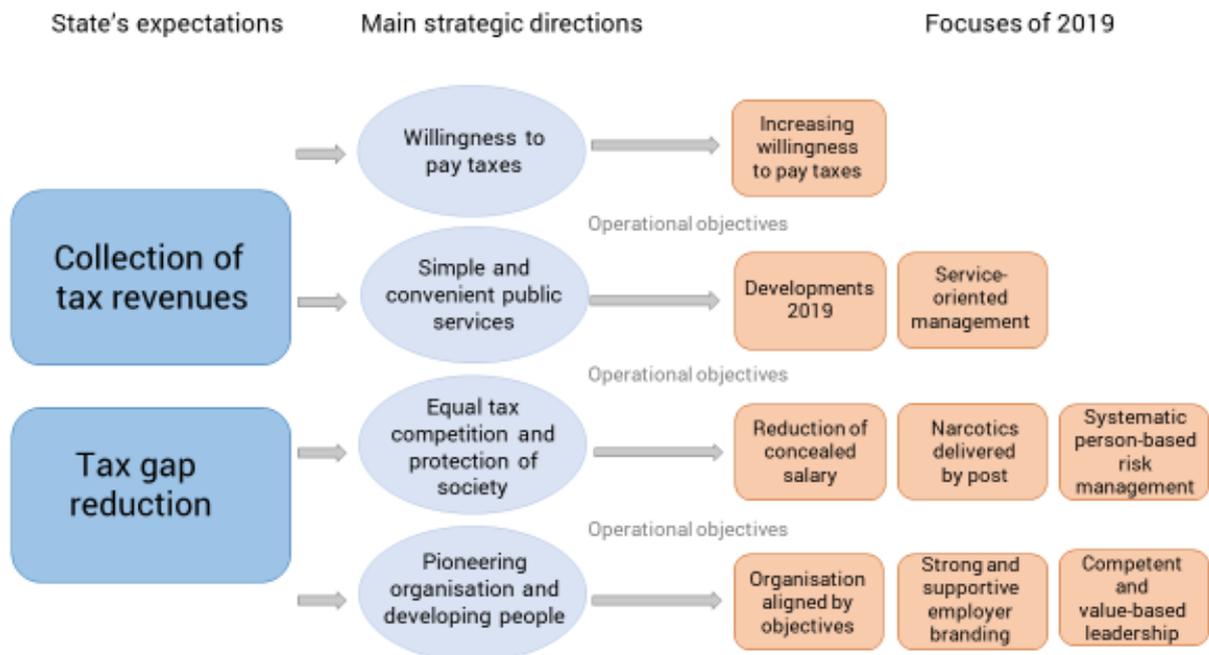
**Collaboration** is revealed in our ability to unite people with different fields of knowledge, competences, experience and age, and make them work towards our common goals. We are convinced that together we are more efficacious.

**Professionalism** means responsibility as well as capability to create value with our work. The mission to serve Estonian state, offering effective public services and contributing to the provision of fairer environment are all integrated in professionalism.

**Growth-mindedness** is important for us in performing our daily work and reaching new targets. Development is a constant process both for each of us and for the organisation - this means a constant aspiration to become a better version of oneself.

# STATE'S EXPECTATIONS AND MAIN STRATEGIC DIRECTIONS

The strategic picture of 2019 consists of the state's expectations set for the Tax and Customs Board and four strategic directions.



*Figure: Strategic picture of Estonian Tax and Customs Board: the state's expectations, main strategic directions and focuses for 2019.*

In Estonian society the Estonian Tax and Customs Board has **two principal tasks** arising from the state's expectations and organisation's role in the implementation of national tax and customs policy: to collect tax revenues and reduce the tax cap.

We fulfil these tasks through four main strategic directions, which help us define our daily operational work. Operational objectives are the objectives set for the daily working tasks of our people and organisation, which contribute to the development of ETCB's strategic directions and so ensure successful fulfilment of our role. Under each strategic direction we have formulated **focuses** or themes in our operative work where we wish to achieve a stronger impact in 2019 as compared with the previous years. In today's context these focuses enable us to purposefully contribute to the strategic goals.

Next, we will give a more detailed overview of the components of our strategic picture and explain how we are going to reach our objectives.

## State's expectations

Estonian Tax and Customs Board implements national tax and customs policy, which aims to ensure the financing of public services. Proceeding from this role the state has imposed on us two main tasks:

- To ensure **expected receipt of tax to the state budget**, so that the state can perform its tasks and allocate financial means as planned. As illustrated in the table below, we successfully fulfilled this objective in the previous years. Similarly, we will make efforts to ensure expected and increasing receipt of taxes to the state budget in the following years.

Measure	Baseline	Target levels			
		2016	2017	2018	2019
State budget vs receipts	100%	100%	100%	<b>100%</b>	100%
	(fulfilment 101,4%)	(fulfilment 100,34%)	(fulfilment 100,4%)		

*Table: Receipt of tax to the state budget according to projections (aggregated spring/summer projections)*

- To ensure steady decline in the proportion of shadow economy. For this purpose we will **reduce the tax gap**, i.e. tax revenue not collected which impedes fair competition and decreases state revenue. The tax gap has been constantly diminishing in recent years and we are working every day to ensure that this trend continues. Our target is to keep the share of the tax cap in paid taxes below 7%.

Measure	Baseline	Target levels			
		2016	2017	2018	2019
Share of tax gap in paid taxes	-	7%	7%	<b>7%</b>	7%
	(fulfilment 5,31%)	(fulfilment 5,53%)	(prognosis 5,13%)	<b>(prognosis 4,75%)</b>	

*Table: Trend and projection of the tax gap*

In order to succeed in fulfilling these two tasks we have worked out four main strategic directions, which help us define our day-by-day operative activities and fulfil the expectations imposed on us in the best possible way.

## Strategic direction 1: Willingness to pay taxes

**What is the impact we wish to achieve?** Taxpayers ensure the functioning of Estonian state so that public services can be offered for the sake of us all - be it in the field of education, security, safety, pensions or other. Our target is to increase people's inner motivation to pay taxes voluntarily, to influence their moral duty to behave correctly in their tax and customs matters. This enables the collection of taxes and reduction of the tax gap without using surveillance measures.

**What are our objectives?** The receipt of tax revenues and decrease of shadow economy is best supported by the Estonian people's tax compliance, which we are striving to increase. Tax compliance is the inner motivation of people to pay taxes. To evaluate the desired change we have elaborated an index of willingness to pay taxes, which measures tax behaviour by four determinants: knowledge, attitudes, social norms and perception of behaviour. The index combines these determinants into an integral and comprehensive indicator, which can be monitored in time and with the help of which we can evaluate the impact of our activities and external factors on people's tax behaviour.

Indicator	Baseline	Target levels			
<b>Willingness index</b>	2016	2017	2018	<b>2019</b>	2020
	-	-	65	<b>&gt;65</b>	Level has increased (compared with the previous year)

*Table: The willingness to pay taxes. The value of index is between 0 and 100, where the maximum indicates an ideal situation in which all Estonian residents express their willingness to pay taxes. Based on the results of the survey carried out in 2018 the index of the willingness to pay taxes in Estonia is 65.*

The first survey was carried out in 2018 and we have set a target to raise this level for the coming two years.

**How will we achieve this?** All the activities of our organisation have an effect on reliable cooperation with taxpayers and their motivation to pay taxes accurately and correctly. This year, we are going to initiate a number of campaigns to influence people's knowledge, attitudes and planned behaviour as well as to shape social norms in relation to tax compliance. Abidance by our principles is what we regard as essential in each customer contact alongside boosting the impact of strategically important activities through targeted communication.

For us it is important that the Estonian people have sufficient knowledge of the state's taxation system. Such knowledge should include awareness of the necessity of paying taxes, noticing tax-related misbehaviour and information on how the money collected in taxes is used.

Risk perception plays a significant role in the attainment of tax compliance. We aim to spread the understanding that misbehaviour in respect of taxes is followed by a reaction from the Tax and Customs Board, whether in the form of a contact, fiscal control or another measure. More than ever, we wish to prove that it is not easy to avoid obligations: if there is the will to avoid taxes, there should also be a perceived risk of being caught.

It is important for us to strengthen the belief that Estonian residents pay taxes under the same conditions and tax avoidance is the conduct that is condemnable in the society. This would increase people's will to behave in accordance with social norms.

**Focuses i.e. themes we concentrate on in 2019?** Under this strategic direction we focus on the achievement of the results which are essential in four components of the willingness to pay taxes.

- **Knowledge:** our objective is to improve people's awareness of the functioning of our taxation system. In 2019, we are mostly focusing on the youth aiming to increase the proportion of young people who consider their knowledge of the Estonian taxation system good. By doing so, we will prevent potential mistakes which occur due to lack of knowledge.
- **Attitudes:** our task is to reinforce the understanding that tax avoidance and evasion do not pay off. That is the reason why in 2019 we mostly focus on the improvement of risk perception related to the activities of the Tax and Customs Board.
- **Norms:** Most people in Estonia declare and pay their taxes correctly - this is illustrated by the decrease of the tax gap and constant receipts into the state budget. In 2019, we first and foremost aspire to influence the understanding that paying taxes is a social norm.
- **Perception of behaviour:** It should be borne in mind that a wish to avoid taxes must be accompanied by a perceived risk of getting caught. In this context, we cooperate with other organisations, associations and various stakeholders (including politicians, professional associations, tax advisers, opinion formers) to make tax avoidance and evasion as complicated, cumbersome and costly as possible.

Objective	Sub-objective	Measure	2018	2019
Estonian residents' tax paying willingness		Tax paying willingness index	65%	<b>increased</b>
	Raise <b>awareness</b> of the functioning of taxation system	The proportion of people who consider their knowledge of tax system good	54%	<b>increased</b>
	Increasing people's <b>risk perception</b> upon non-payment	Rating to the statement that in the case of failure to declare your income ETCB will contact you.	60%	<b>increased</b>
	Understanding that tax compliance behaviour is a <b>social norm</b>	Rating to the statement that most people declare and pay their taxes correctly	72%	<b>increased</b>
	Understanding that it is <b>difficult to evade</b> the payment of taxes	Rating to the statement that it is easy to evade paying taxes	48%	<b>decreased</b>

Table Objectives and measures of the focus of increasing the willingness to pay taxes

## Strategic direction 2: Simple and convenient public services

**What is the impact we wish to achieve?** Our guiding principle in designing public services is to offer law-abiding clients streamlined means of performing their tax and customs obligations. If paying taxes is easier than tax evasion, people's willingness to pay taxes timely and correctly will increase, which in turn will also increase tax compliance.

**What are our objectives?** In order to achieve a desired effect, our objective is to increase the number of persons who pay taxes timely and correctly thanks to simple and convenient services. We will measure the fulfilment of this objective by monitoring changes in the percentage of honest people i.e. persons who do not represent any risks in the view of ETCB. We regard our objective fulfilled if honest people account for 85% of all taxpayers.

Measure	Baseline	Target levels		
	2017	2018	2019	2020
Percentage of honest persons	81.88%	85% (fulfilment 81,29%)	<b>85%</b>	85%

Table: The percentage of honest i.e. riskless persons

ETCB’s simple and convenient services form the actual customer experience which, in turn, influences the income from taxes and shape taxpayers attitudes. Feedback from customers play a significant role in the development of services, which enables us to find out taxpayers’ needs and expectations and promptly react to these. We have set a target to maintain our clients’ satisfaction with our services at the “excellent” level.

	Baseline	Target levels			
	2016	2017	2018	2019	2020
<b>Promoter index</b>	61%	60% (fulfilment 71%)	60% (fulfilment 61%)	<b>60%</b>	60%

Table: Transaction-based promoter index of all ETCB services

The promoter index method is based on the assumption that if individuals recommend the Tax and Customs Board to their friends or acquaintances, they will take the responsibility for the quality of a product or a service. The scale of promoter index ranges from 0 to 10, where selection from 0 to 6 indicates that an individual does not recommend, 7 and 8 stand for a passive attitude and from 9 to 10 means that an individual recommends the service. The results of the promoter index are displayed as the interval from -100% to +100% (excellent: from +100% to +60%, very good: from +59% to +20%, good: from +19% to 0%, satisfactory: from -1% to -40%, bad: from -41% to -70%, very bad: from -71% to -100%).

**How will we achieve it?** We have set a target that our services offer an excellent customer experience. We guarantee that the public services of ETCB are upgraded taking into account the customer journey and user experience. Our services have a common user logic and look, they are multilingual and usable in different devices.

ETCB’s customers wish to use e-services everywhere at all times of day. This sets high expectations for the quality and performance of our services. We enable our customers to use public services at the time that is most convenient for them, which means that we also ensure operational reliability. In addition to building up services that take into account our customers’ life-style and habits, we have to manage these services in the way that the high quality and operability of services as well as our capability to promptly react to potential alerts is ensured.

Inside our organisation, we will guarantee that the provision of public services is effective and the development of services abides by the priorities agreed upon. This enables us to allocate available resources for the most important purposes.

**Focuses i.e. themes we concentrate on in 2019?** Under the direction of simple and convenient public services we lay emphasis on two focuses which enable us to offer services that meet our customers' expectations and to manage these services successfully:

- **Developments 2019.** We will concentrate on three main development projects:
  - New client desktop. The old e-Tax will be replaced by three new environments: simple and convenient user-friendly e-ETCB self-service platform for customers; new user platforms for ETCB's officials and external officials.
  - Developments of upgrading users, persons, access rights and authentication (KIPS) are meant for building a new self-service environment e-ETCB and the implementation of the requirements of eIDAS regulation (on electronic identification and trust services for electronic transactions in the internal market). The aim of the eIDAS regulation, which is mandatory in the European Union, is to simplify the use of cross-border e-services. Today, the services of the ETCB's self-service environment require an Estonian personal identification code, but the project will enable to widen the possibilities of authentication.
  - In developing a persons' tax behaviour information or reflection service, new services which support business operators' activities are being worked out (including statistics, public data compilation, displaying tax-related risks), which make the tax authority more open and transparent.

Likewise, we develop other existing services to find better ways to offer customer-friendly solutions. Using our new applications must be as simple as possible taking the shortest possible time and providing all the necessary support to customers' voluntary tax compliance.

- **Service-oriented management** helps us provide high quality services in all service channels, render value-adding public services and develop and administrate these services in alignment with the objectives of Estonian Tax and Customs Board. During the period concerned, we will obtain clear knowledge of each public service provided by ETCB as a whole, map information systems linked to each service and work out a framework of service management (including roles and responsibilities). By late 2019, the list of ETCB services will have been updated, services will have been mapped and will be functioning based on a process-based model connected with the area of government.

### Strategic direction 3. Equal tax competition and protection of society

**What effect do we aim to achieve?** Our essential tasks in Estonian state is to reduce the deficit in tax revenue arising from tax avoidance and tax evasion, to ensure more equal competition environment and to protect Estonian society from tax and customs crime. To raise tax compliance among problematic taxpayers, we use surveillance measures at our disposal in the best possible way so that persons looking for unfair methods would understand that the state does not tolerate illegal activity and is ready to take preventive measures. As a result, there will be more people in Estonia who comply with their tax and customs obligations correctly.

Measure	Basic level	Target levels		
	2017	2018	2019	2020
Percentage of honest people	81.88%	85% (fulfilment 81,29%)	<b>85%</b>	85%

Table: The percentage of honest i.e. riskless persons

**How will we achieve this?** The tax gap in general is showing a falling trend, which means that our previous surveillance activities have had a good impact. Nevertheless, ensuring equal tax environment and complicating tax evasion and avoidance is still an important challenge for ETCB.

We will guarantee equal conditions for all persons engaged in business as well as the receipt of national taxes into the state budget through decreasing the number of offences and frauds related to income tax, value added tax and excise duty. In doing so, we attempt to influence offenders as efficiently as possible using the measures that arise from their risk assessment and have most effect on them.

We will reduce safety risks to the society by preventing the spread of prohibited goods and black market. For this purpose, we are carrying out operational activities inland as well as at the border crossing points of the eastern border, airport and seaport. We will ensure tax compliance and diminish the number of offences related to customs duties and customs obligations while performing effectively as an organisation.

Our crucial role is combating tax and customs crimes, which requires annual mapping of threats to tax environment and protection of society as well as the development of our own capabilities. International cooperation plays an essential role in our work as tax and customs crimes are

increasingly transcending national borders. Globalisation has sparked a growth in the variety of crimes and therefore, our important task is to prevent the delivery and circulation of prohibited goods by post.

Our task is also to enforce the payment of tax liabilities, because this is the only way to ensure equal tax environment. We influence debtors to fulfil their tax liabilities more systematically and based on priorities. Efficacious influencing of persons presumes high-quality misdemeanour and administrative proceedings resulting in the decisions which remain valid in court proceedings as well.

**Where are surveillance focuses in 2019?** This year the surveillance direction includes three focuses:

- **Concealed salary** causes unfair competition in business: receivers and payers of hidden salary have unjustified advantage over other law-abiding taxpayers. In order to identify problems and find solutions related to concealed salary, we have formed cross-sectoral working groups in our organisation, who are working out new efficient solutions. We have a good cooperation with a number of business organisations and associations, because business operators are more and more knowledgeable of the benefits of fair competition and equal opportunities in the labour market.

Running this focus, we are monitoring changes in the proportion of the receivers of concealed salary. We have set an ambitious objective to reduce the proportion of concealed salary receivers by half, i.e. to the level of 4% by the year 2021.

Theme/objective	Measure	Fulfilment	Fulfilment	Target level			
		2016	2017	2018	2019	2020	2021
Reduction of concealed salary	Percentage of concealed salary receivers	8%	13%	7% (fulfilment result available in spring 2019)	<b>6%</b>	6%	4%
	Change in percentage of businesses with the risk of	-	-	<24% (fulfilment 23,47%)	<b>&lt;22%</b>	<20%	<15%

	<b>concealed salary (counties)</b>						
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Table: Targets and measures of the focus of concealed salary

- **Fight against narcotics delivered by post.** The spread of narcotics sent by post is an important and new challenge in Estonia, because ordering prohibited substances by post does not require special knowledge and it is more complicated to detect this activity. In 2019, we will concentrate on legislative amendments which would enable ETCB to fulfil its surveillance objectives more efficiently than before. In 2019, we will establish an operational framework and seek for new solutions.

Objective/theme	Sub-objective	Measure	Results	
			2018	2019
<b>Fight against narcotics delivered by post</b>	We will prevent the delivery of narcotics by post	under preparation	-	<b>under preparation</b>

Table: Objective and measure of the focus of the fight against narcotics delivered by post

- **Systematic person-based risk management** means that our surveillance activities must be carried out systematically, proceeding from persons' risk profiles. In order to reduce the percentage of risky persons we will more efficiently develop risk management and increase the percentage of people influenced through the development of automated processes. We will approach to different levels of risk in the most suitable and effective manner, from reminders to more severe control measures.

Objective/theme	Sub-objective	Measures	Results	
			2018	2019
<b>Systematic person-based</b>	Decrease in percentage of risk-related persons,	Increase in percentage of risk-related	-	<b>under preparation</b>

<b>risk management</b>	increase in percentage of persons influenced	persons dealt with		
		Decrease in percentage of repeat offenders	-	<b>under preparation</b>
		Growth of detected risks/productivity	-	<b>under preparation</b>

Table: Objectives and measures of systematic person-based risk management

## Strategic direction 4. Pioneering organisation and developing people

**What effect do we aim to achieve?** The fourth strategic direction of the Tax and Customs Board concentrates on the organisation and the development of its people. We wish to ensure that the employees of ETCB are dedicated and qualified, collaborating with each other to fulfil the organisation's objectives. Our own people influence the tax compliance in Estonian society every day: succeeding in efficient tax collection and ensuring fair economic environment and security of the society depends on the dedication, professionalism and competence of our people.

**What are our objectives?** Keeping in mind the desired effect, we have two main objectives. First, to ensure engagement of the employees of Tax and Customs Board, which means that people have positive emotions with respect of the organisation and its objectives. Engaged people are interested in the achievement of excellent results and sustainable development of the organisation. Under employee engagement we measure three indicators: people's content, how they speak about their organisation (PI) and their actual behaviour i.e. to what extent they are ready to contribute each day more than expected.

	2019		Target level 2020
<b>Employee engagement</b>	Basic level	Target level	≥ 64
	59	≥ 62	

Table: Dedication of ETCB employees. The basic level of engagement was revealed in April 2019 by the survey of ETCB employee engagement. Earlier surveys were focused only on the aspects of employee satisfaction.

It also depends on our employees how well we can implement the objectives set in other strategic directions. That is why our second target is to ensure the fulfilment of the objectives of all the other strategic directions through efficient personnel policy.

**How will we achieve this?** The aim of people policy is to support the implementation of the ETCB strategy, which requires qualified and motivated employees and organisation culture that supports development and efficiency.

In order to form a capacity needed by our organisation we consider important that simple and convenient HR services are available to managers, which can be measured by inner client satisfaction and which reduce the administrative burden of managers. At each moment but especially in the current situation of labour market it is essential to ensure that we fill vacant positions with qualified people, the objective of which we can measure by the fact that new recruits get positive assessment at the end of their probation period and continue their working life at Estonian Tax and Customs Board.

We consider essential to give our people development opportunities, to pass knowledge and generate new knowledge, to plan the recruitment of young successors for key positions and to introduce novel working methods. Development and training must be well-prepared and sustainable to enable the achievement of necessary competence level in order to raise the quality of work.

The performance of organisation as a whole and achievement of objectives are influenced by the quality of leadership and culture. Today we are concentrating on the development of leadership competences of our managers as well as agreeing upon and modernising the principles of people processes.

**Focuses i.e. themes we concentrate on in 2019?** This year we have three focuses under the strategic direction of ETCB people:

- **Organisation aligned by objectives.** Our purpose is to lead the organization's units and people towards fulfilling the common goals through knowledgeable planning and communication. To this end, it is important that the employees of ETCB can associate their work contribution with the organisation's goals feeling that they are supporting the general strategy.

Objective	Measure	Basic level 2019	Target level 2019	Target level 2020
Organisation aligned by objectives	Whole organisation aligns with clear vision and objectives (result 3,8)	<b>4,2 (in total)</b>	<b>Maintain the level</b>	<b>Maintain the level</b>
	I understand how my work contributes to the fulfilment of ETCB objectives (result 4,3)			
	Me and my manager have discussed and agreed upon this year's objectives and ways of assessment of their fulfilment (result 4,4)			
	In our team, we regularly monitor the fulfilment of my unit's objectives (result 4,2)			

Figure: The evaluation by the employees in the survey of April 2019. Earlier we measured the ratings to the statement "I feel that we are working for the common goal." From 2019 we will conduct the satisfaction and dedication survey in a new format and therefore we cannot analyse the results by one to one comparison.

- **Strong and supportive employer branding.** For a number of people, working for ETCB is a mission to serve the Estonian state, opportunity to influence a lot of people and establish a fairer economic environment. We wish to reflect the same emotions in the employee branding of ETCB. Here we measure our capability to recruit employees from the target groups, applying two indicators: successful recruitments to key positions and positions with new profiles through public competition. The quality indicator here is a successfully passed probation period. Another significant objective is retention of our existing professionals in the organisation, and this is measured by voluntary turnover of workforce.

Objective	Measure	2017	2018	Target level 2019
Strong and supportive employer branding	% of successful recruitments to key positions	-	88 % of all recruitments	<b>Increase</b>
	% of successful recruitments to positions with new profiles			<b>Increase</b>
	Voluntary turnover	4.2%	5.11%	<b>Below 6%</b>

Table: Target levels of the objective and the focus area "Strong and supportive employer branding"

- **Competent and value-based leadership.** Capability to lead the whole organization to the commonly agreed direction and working for the common goals requires competent and high-quality leadership. In 2019 we are striving for enhancing the quality of leadership of ETCB, which can be measured by employees' assessment to the leaders and leadership, according to the agreed leadership competences framework.

Objective	Measure	2017	2018	Basic level 2019	Target level 2019
Competent and value-based leadership	Assessment rating to the direct managers' leadership competences (in 2017 to managers and management)	4,3	-	<b>4,2</b>	<b>Maintain the level</b>
	Employee promotion index	83%	-	<b>3,5</b>	<b>3,6</b>

*Table: Ratings of the employee engagement survey to direct managers; ratings to the organisation. The results of both measures of the 2017 survey are based on the employee satisfaction surveys carried out earlier. Since 2019 we carry out the employee engagement survey in a new format, therefore it is not entirely accurate to use one-to-one comparison between the ratings. The proportion of the answers on the positive side of the scale is still 83%.*

## OUR PREVIOUS DIRECTIONS

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### 2005–2008

Tax Board and Customs Board were separate state authorities under the governance of the Ministry of Finance until February 1<sup>st</sup>, 2004, when they were merged into Estonian Tax and Customs Board. The successful merger was made possible thanks to active contribution by both agencies. On the one hand, it brought about challenges related to the structural changes of the organisation, on the other hand, it was an adaptation to new tasks proceeding from the accession to the European Union.

The main challenge of the merged organisation was to become a fair and professional partner to customers (taxpayers) in facilitating business environment and protecting economy and society. In the context of the integration of services, our central task was to ensure consistency and quality in meeting customers' needs. Therefore, our primary development objective was to become a customer-centric organisation.

As a first step, we defined our main customer groups and the content of services expected by them. Information on customers' expectations came from customer satisfaction surveys. Next, we started to design services based on the needs of different customer groups, which led to continuous improvement activities in the form of redistribution of duties and resources. We included these processes into the development plan 2005-2008 of the merged organisation, where we phrased our new mission, vision and strategic framework. By the end of the first strategic period we had become a trustworthy cooperation partner recognised by individual clients as well as by the state and partner organisations. This was proved by the high level of satisfaction among customers and increasing percentage of e-declaration.

Under the conditions of the impending economic crisis we started preparations for the coming strategic period under the leadership of our management. The analysis of the efficiency of management system and preparation of a new development plan ended in a large-scale structural reform in late 2008. As a result of the reform, the former pillar-based structure was replaced by a processes-based structure, in the course of which the number of management levels was substantially decreased and costs were reduced.

## 2009–2012

2009 was a post-reform adaptation year with dramatically reduced staff. The effects of the global economic recession on Estonia caused the increase in the number of people who owned tax arrears, which, in turn, raised working load in the tax authority and the importance of surveillance processes. Such external pressure obliged the Tax and Customs Board to achieve results in the field of operative rather than development activities. Proceeding from our vision and role in the society we set two main goals for the years 2009-2012: to reduce the administrative burden of law abiding customers through the diversification of services and improvement of service quality, and to increase law-abidingness through the development of control and influencing measures. This strategy did not include the development of organisation and employees yet.

In the situation where the capacity of the European countries for the implementation of the EU customs information systems was very low (in 2009), we were one of the six EU customs organisations who succeeded in implementing all the changes within the time-limit. In 2010 we were making preparations for the transition to the euro. The corresponding project launched at the beginning of 2010 was divided into four sub-projects and all the works were completed on time. The migration of all the ETCB information systems which contained currency values was carried out from December 31, 2010 to January 3, 2011. As a result, it was possible to differentiate between kroon transactions and euro transactions.

## 2013–2016

The long-term development plan of this period included three strategic goals: to collect the state's tax revenues, to decrease the percentage of illegal economic activity and to create an organisational culture that supports development and efficiency. Our objective was to increase the so called voluntary tax receipt while retaining simplicity and clearness of the compliance of tax liabilities resulting from tax and customs legislation. Our target was to reduce the amount of taxes not collected and ensure fairer competition environment by decreasing tax fraud and illegal trade and keeping administrative burden reasonable.

During the period under consideration we were firmly focused on the availability of ETCB services at places that were most convenient for our customers – be it the nearest service bureau or e-channel. We appreciated honest customers by offering them simplifications in paying taxes and performing their customs formalities. We informed our customers in advance of their

obligations and, if appropriate, drew their attention to their mistakes offering the possibility to correct them. Likewise, we regarded as essential to continuously ensure fair competition, and therefore, we placed particular importance on modernising and increasing the control measures which raise tax compliance.

Compared with the previous period (2009-2012), we added an important objective supporting the development of the organisation and organisational culture. That development objective was directed to our own employees as well as to our customers, aiming at increasing the staff's motivation to achieve organisational aims.

## 2017–2018

In 2017, we set a bigger target to work towards the increase of voluntary tax compliance among the residents of Estonia. For that purpose, we worked out new strategic directions based on which we give a meaning to our daily work.

In 2018, we conducted a first survey on the Estonian residents' willingness to pay taxes, based on which we started systematic activities for increasing the willingness to pay taxes among people and businesses. Offering simple and convenient services we concentrated on the development of tax and customs services driven by the needs of taxpayers and simplification of tax and customs accounting as well as started the introduction of service-based management. In surveillance area, we concentrated on the fight against hidden distribution of profits, evasion of labour taxes (concealed wages), tax and customs crimes and black market. Moreover, our actions aiming at increasing tax discipline influenced also debtors owing large tax arrears. From the perspective of our people and organisation, we developed management quality and started to work out the ETCB people's strategy.