

**Estonian Tax and Customs Board**

**STRATEGIC DEVELOPMENT**

**PLAN 2023**

---

Tallinn 2023

# INTRODUCTION

---

OVERVIEW .....	3
OUR MISSION, VISION AND LEADERSHIP PRINCIPLES.....	4
STATE’S EXPECTATIONS AND MAIN STRATEGIC DIRECTIONS.....	8
State’s expectations .....	10
Strategic direction 1: Simple and convenient public services .....	12
Strategic direction 2: Equal tax competition and protection of society .....	15
Strategic direction 3: Pioneering organisation and developing people.....	19

## OVERVIEW

---

The purpose of Estonian Tax and Customs Board (ETCB) is to administer state revenues, implement national tax and customs policy and protect society and legitimate economic activities. The Estonian state has set three expectations for the ETCB: to collect the tax revenues of the state, to protect society from the dangers arising from the shadow economy and to ensure the protection of society, i.e. only the movement of fair goods across the external borders of the European Union.

In performing these three tasks, our vision is voluntary tax compliance in Estonian society, as a result of which residents voluntarily fulfil their civic duty to pay taxes, thereby enabling the functioning of the Estonian state. The international economic environment presents important challenges, which is why it is increasingly important for us to adapt to rapidly changing conditions – to find ways to automate services, keep the risk assessments up to date, and offer customers the opportunity to exchange data in real time, with minimal administrative burden.

To ensure high tax compliance, we have set **three main strategic directions** which help us define our day-by-day operational activities and lead our organisation towards the desired vision:

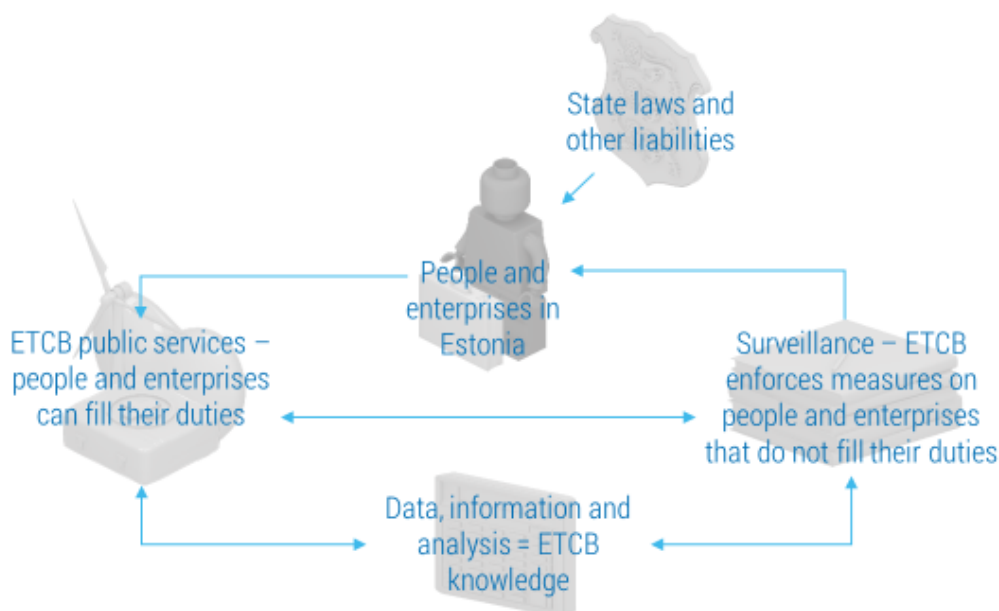
- **Simple and convenient public services:** we offer **all taxpayers** streamlined means to perform their obligations. The services provided by the ETCB motivate people to comply with their tax and customs obligations in a correct manner.
- **Equal tax competition and protection of society:** surveillance over **problematic taxpayers** is efficient and systematic. Tax evasion and avoidance is complicated, cumbersome and expensive, and we pay attention to changing trends in our activities.
- **Pioneering organisation and developing people:** the **people of the ETCB** are committed and professional, collaborating with each other in achieving the organisation's goals.

The strategic objectives and metrics of the ETCB, which we have set for four years and through which we assess the effectiveness of our activities, are concentrated under these **strategic directions**. We achieve the desired results by successfully fulfilling the operational objectives of our people and organisation.

## OUR MISSION, VISION AND LEADERSHIP PRINCIPLES

The strength of the ETCB 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.

The Estonian state has imposed a number of obligations on people who live here as well as on enterprises that operate here, which ensures the functioning of the state. Public agencies (including the ETCB) enable to fulfil these obligations and, where necessary, remind people the importance of complying them.



*Figure: ETCB's role in society*

Through tax and customs policy, the state has set us three principal tasks: to collect annual state revenues, to keep the tax hole low and ensure the protection of society. By carrying out these three tasks, we ensure that the revenue of the state is collected so that the state can use taxpayers' money to provide public services. The strategic directions and objectives set by the organisation are driven by the mission and vision of the ETCB.

**Mission** formulates our role or, in other words, our purpose in Estonian society:

**Efficient collection of taxes, protection of the Estonian economic environment and society**

The contribution of each taxpayer helps to build and protect Estonia. Taxpayers ensure the functioning of the Estonian state by providing services for the benefit of all residents – be it education, security, safety, pension or any other area. We measure the achievement of the mission by meeting the expectations of the state, which is to collect the state's tax revenues, reduce the tax gap and protect society (see page 10).

We consider it ideal that all people and companies voluntarily fulfil their tax and customs obligations and that no one needs to be reminded of their obligations. The **vision** articulates the desired picture of the future that we want to achieve with strategic activities:

**We support the development of the Estonian state in its aspiration to be the 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 rules. 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. The 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.

In a country with a high level of tax compliance, residents perform their tax and customs duties voluntarily, in a timely and correct manner, because the payment of taxes is a social norm. This means that people understand the need to contribute to the provision of common goods and to the development of Estonia. We measure the movement towards the vision using three indicators:

- 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. These determinants are combined 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.

Measure	Outcome				Target level
Tax paying willingness index	2019	2020	2021	2022	2023
	66,5	68,4	69,6	67	≥65

*Table: The index of 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.*

- In addition, relations between the tax authority and the taxpayer significantly affect our aspiration towards the state with the highest tax compliance. By being a **trustworthy collaboration partner**, we can ensure people's assurance on tax and customs matters. Today we are among the most trusted institutions in Estonia and we have set the goal of maintaining this level.
- If people fulfil their obligations voluntarily and correctly, the need for using additional resources in tax collection will decrease. That is why we have set the objective of collecting tax revenues as **efficiently** as possible. In 2022 our administrative cost per 100 euro of taxes collected was 45 euro cents. For example, the increasing use of e-services and automation, targeted supervisory activities and the principle of "one-stop shop" in both tax and customs services contribute to our efficiency.

The **management principles** agreed upon in the ETCB reflect the organisation's main values and are expressed in the management of the organisation, so helping us to perform our mission and reach the desired vision:

**Innovation** – the capability to generate novel ideas, upgrade the existing situation and successfully implement the developments is one of the 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.

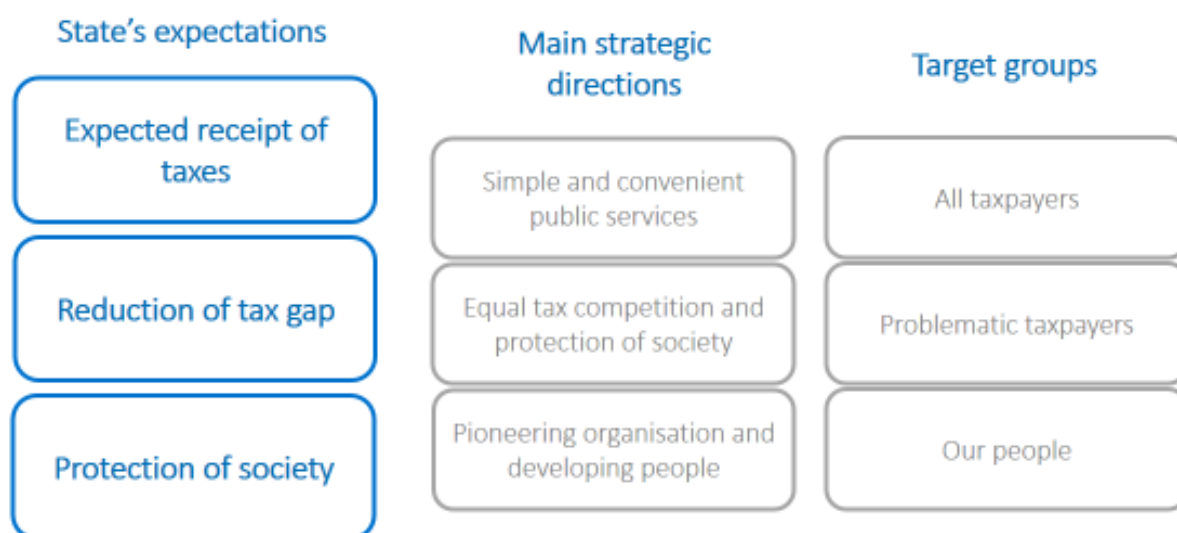
**Professionalism** means responsibility as well as capability to create value with our work. The mission to serve the Estonian state, offering effective public services and contributing to the provision of fairer environment are all integrated in professionalism.

**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 ETCB has **three main functions** in Estonian society, arising from the expectations set by the state and our role in the implementation of the tax and customs policy of the state: the ETCB collects the tax revenue of the state, reduces the tax gap, i.e. lost tax revenue, and ensures the protection of society, i.e. the movement of fair goods.

Aspiring to the position of a state with the highest tax compliance rate in Europe, we will approach Estonian society by segments of three target groups: all taxpayers, problematic taxpayers and the people of the ETCB. We have three strategic directions that help us achieve the desired vision, each of which focuses on one of the three strategic target groups.



*Figure: Strategic picture of the ETCB: the state's expectations, main strategic directions and target groups*

**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 the 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, which supports the tax compliance of Estonian people.



**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, in many cases 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 appropriate punishments. In order to achieve the best possible result, surveillance activities must be well targeted, as efficacious as possible and carried out systematically, and our risk assessments must take into account the challenges of a changing economic environment.

The third strategic direction of the ETCB mostly focuses on **the organisation and its employees**. It is important that people working in ETCB be committed and professional, capable of achieving the organisation's objectives in good collaboration. The strategic direction **“pioneering organisation and developing people”** covers, among other things, the constant development of the organisation and support to internal diversity and innovation. We guarantee the working environment where competent and dedicated people want to come and contribute to the development of Estonia and European Union by doing the work that is interesting for them.

In the following, we will give a closer overview of the components of the strategy picture and explain how we can achieve the goals set.

## State's expectations

In Estonian society the ETCB has three principal tasks arising from the state's expectations and the organisation's role in the implementation of national tax and customs policy: to collect tax revenues, reduce the tax cap, and ensure the protection of society.

We 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	Outcome			Target level
State budget vs receipts	2020	2021	2022	2023
	104%	102%	108%	100%

Table: Receipt of tax to the state budget according to the projections

Our second important task is 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 gap in paid taxes below 5%.

Measure	Outcome				Target level
Share of tax gap in paid taxes	2019	2020	2021	2022	2023
	4,91%*	4,19%*	3,17%*	3,15%*	<5%

Table: Trend and projection of the tax gap. Projections are marked with an asterisk.

Our third important task is to ensure the **protection of society**, i.e. only the movement of fair goods across the Estonian external border and from here on into the European Union. In order to get a sense of how protected Estonian society is against the movement of goods moving on the black market as well as goods under prohibitions and restrictions, we can use several indicators and

management information that are constantly monitored in our work (e.g. customs compliance, trends in violations, operational risk information). Illegal products are particularly preferred because of their cheaper prices, which is why we monitor the share of the black market for excise goods on an annual basis in order to assess the situation on the market.

We fulfil these tasks through **three 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 the ETCB's strategic directions and so ensure successful fulfilment of our role.

## Strategic direction 1: 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 and customs compliance.

**How will we achieve it?** The changing economic environment and related tax changes require us to adapt quickly, including meeting the ever-higher expectations of our customers by reducing the administrative burden through paying and declaring taxes in real time, data-based reporting when paying higher taxes, and pre-filled tax returns. We are working to ensure that our customer service continues to be professional in changing circumstances in order to provide our customers with the necessary support in fulfilling their tax and customs obligations.

The ETCB provides a total of 18 public services that offer excellent customer experience. We ensure that the public services of the ETCB are updated according to the client's journey and user experience. They are uniform in use logic and appearance, multilingual and usable in different devices. Our customers expect to be able to use e-services anywhere and regardless of the time of day. This sets high expectations for the quality and performance of our services. This means that in addition to building services that take into account customers' lifestyles and habits, we also need to manage them in a way that ensures continuous quality of services and our ability to react quickly to ensure operational reliability.

Inside the agency, we ensure that the provision of public services is effective – we aim to find smart ways to promote the use of e-services. The development of services is based on agreed priorities, which allows us to use the available resources in the most important areas.

**What are our objectives?** For the current period, we have set four objectives which help us to offer simple and convenient services.

**Objective 1: raising client satisfaction.** Simple and convenient services offered by the ETCB form the actual customer experience, which, in turn, influences the income from taxes and shape the attitude of taxpayers and persons crossing the border. Feedback from clients plays a significant

role in the development of services, which enables us to find out the needs and expectations of taxpayers and persons crossing the border and promptly react to these.

We measure client satisfaction using the promoter index method and we have set a target to maintain our clients' satisfaction with our services at the "excellent" level.

Measure	Outcome			Target level
Promoter index	2020	2021	2022	2023
	72%	70,5%	77,9%	70%

*Table: Transaction-based promoter index of all the ETCB services. The results of the promoter index are displayed as the interval from -100% to +100% (excellent level is from +100% to +60%).*

**Objective 2: we will improve the usability of services.** When providing and developing the ETCB services, we are guided by the principle that the use of the service is fast, convenient and user-friendly. The whole service process must be structured in such a way that taxpayers can meet their obligations and perform necessary actions independently or in a single contact. In 2023, we have set the goal of keeping the number of incoming contacts at the level of the previous year.

Measure	Outcome			Target level
Maintaining the level of incoming contacts	2020	2021	2022	2023
	405 thousand contacts (decrease – 10%)	473 thousand contacts (increase – 19%)	390 thousand contacts (decrease – 18%)	Maintaining the level

*Table: Measures of the objective "we will improve the usability of services". Decrease in incoming contacts is monitored by four channels – phone calls, e-mails, communication component, service bureaus.*

**Objective 3: e-services are available.** We make it possible for our customers to use public services at the time that is most convenient for them, which means that we also have to ensure operational reliability. This will be achieved through a quality development process, technical capacity building and professional service management. It is important for us to be informed, in good time, of service deficiencies and to find solutions in a way that minimises the impact on customer experience. Reliability is reflected in the Service Level Agreement (SLA) indicator.

Measure	Outcome		Target level
SLA indicator	2021	2022	2023
	99,9%	99,9%	99,9%
Duration of interruptions per year (hours)	177h	153h	Up to 150h
Number of critical incidents per year	13 incidents per year	8 incidents per year	Up to 10 incidents per year

Table: Measures of the objective "e-services are available".

**Objective 4: services increase tax compliance.** In order to achieve the desired effect, our goal is that the use of public services will result in the increase in the number of people fulfilling their obligations duly and correctly. With our new applications, compliance with tax obligations must be as simple as possible and at the minimum cost to fully support taxpayers' voluntary tax compliance. We assess the achievement of this objective by the timely payment of claims and the proportion of persons who meet their reporting obligations. In 2023, we want to maintain the level of timely payment of claims and slightly increase the proportion of reporting-abiding taxpayers.

Measure	Outcome			Target level
Timely payment of claims	2020	2021	2022	2023
	85,3%	88,6%	88,2%	88%
Proportion of persons who comply with reporting requirement	84,4%	87,5%	87,9%	88%

Table: Measures of the objective "services increase tax compliance".

## Strategic direction 2: Equal tax competition and protection of society

**What is the impact we wish to achieve?** Our essential task in the Estonian state is to reduce the deficit in tax revenue arising from tax avoidance and tax evasion, to ensure a fairer competition environment and to protect Estonian society from tax and customs fraud. 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.

An important prerequisite for this is that the data available to us are of high quality and up-to-date, which would allow for the creation of increasingly accurate risk models. As a result, there are more persons in Estonia who perform their tax and customs obligations correctly, as those who use unfair practices feel that the state does not tolerate illegal activities and is ready to use corrective measures to prevent them.

**How will we achieve it?** The main motivation of tax fraud, smuggling and other similar 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 to punishments, if necessary. This enables us to influence offenders as effectively as possible by means of measures based on risk assessment and having the most long-term impact. In order to achieve the best possible result, surveillance activities must be well targeted, as efficacious as possible and carried out systematically.

**What are our objectives?** The tax gap in general shows a falling trend (see page 10), which means that our previous surveillance activities have had a good impact. Nevertheless, ensuring equal tax environment and making tax evasion and avoidance more complicated is still an important challenge for the ETCB, which we aim to solve by means of three major objectives:

**Objective 1: protection of society and increase in customs compliance.** The main objective of the customs area is to ensure the functioning of fair economy through the free movement of safe

goods. We reduce the risks to the security of society by preventing the spread of prohibited goods and the functioning of the black market, and our role in supporting international fair trade is particularly important. In order to fulfil the main purpose of the customs – to make the movement of fair goods possible at the lowest cost and customer burden, the customs must act wisely, skilfully, plainly and creatively. To this end, we will continue to develop paperless customs and introduce the Single Window policy to reduce the administrative burden on both us and the private sector through the one-time data submission principle.

In order to protect the society, we work in cooperation with other supervisory and security authorities (including the Police and Border Guard Board) to ensure the functioning of the European Union's customs border. During the period of this development plan, our focus is primarily on the implementation of sanctions, which are the most powerful weapon in the Western world against Russian aggression in Ukraine. While enforcing the sanctions regime, we support entrepreneurs to enter alternative markets through training, counselling, obtaining and implementation of best practices by cooperation partners.

To this end, we carry out customs checks based on risk assessment both domestically and at the external borders, at the border crossing points of airports and ports. We implement supervisory measures aimed at increasing customs compliance (prevention of infringements and accurate enforcement of customs obligations), while being effective in our activities as an organisation. We monitor the progress towards the objective of ensuring the protection of society, in particular through two indicators of the customs compliancy, one measuring the customs compliancy of natural persons and the other measuring the customs compliancy of legal persons.

Measure	Outcome			Target level
Compliance at the border (natural persons)	2020	2021	2022	2023
	96,7%	97,3%	98,3%	<b>96%</b>
Declarants' customs compliance (legal persons)	88,8%	90%	93,2%	<b>91%</b>

*Table: Measures of protection of society and customs compliance.*



**Objective 2: fair tax competition and increase in tax compliance.** Our task is to ensure a fair tax environment for businesses in Estonia through enforcing tax compliance. We will ensure fair conditions for all businesses and the receipt of national taxes through the reduction of infringements and fraud related to income tax, VAT and excise duties. On a more systematic and prioritised basis, we are increasingly influencing tax debtors to meet their obligations.

In order to achieve the desired impact, we aim to have more honest taxpayers as a result of effective, systematic and targeted use of surveillance measures. We assess the achievement of this objective on the basis of an increase in the proportion of honest individuals, i.e. persons with no risk in the eyes of the ETCB. The achievement of this objective is assessed through the increase in the proportion of honest natural and legal persons who do not present any risks in the eyes of the ETCB.

We also monitor the numbers of persons effectively checked and advised. Here, our main focus is on achieving a long-term impact and increasing numbers of people with improved tax behaviour.

Measure	Outcome			Target level
	2020	2021	2022	2023
Proportion of honest legal persons	84,8%	92,2%	93%	Maintaining the level
Proportion of honest natural persons	96,7%	97,5%	97,7%	Maintaining the level
Proportion of persons effectively checked and advised	40,4%	62%	52%	50-60%

*Table: Measures of fair tax competition and increase in tax compliance.*

**Objective 3: effective criminal proceedings.** Our aim is to prevent the actions by people who have chosen to gain a competitive advantage in economic activity over honest business in a criminal way: by concealing their tax obligations, increasing their refund claims or handling smuggled goods. Fulfilling our role in combating tax and customs crime requires the annual mapping of

criminal threats affecting the tax environment and social protection, as well as the development of our own activities and capabilities.

We must ensure that at least 75% of all criminal proceedings initiated reach the prosecutor's office in order to complete pre-trial procedures. We will pay particular attention to the recovery of criminal proceeds and international cooperation.

Measure	Outcome			Target level
Proportion of successfully completed criminal proceedings	2020	2021	2022	2023
	68%	77%	80%	75%

*Table: Measure of effective criminal proceedings*

### Strategic direction 3: Pioneering organisation and developing people

**What is the impact we wish to achieve?** The third strategic direction of the ETCB focuses on the development of the organisation and its people. We wish to ensure that the employees of the 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 a fair economic environment and security of the society depends on the commitment, professionalism and competence of our people.

**How will we achieve it?** The aim of people policy is to support the implementation of the ETCB strategy. This requires leadership that creates clarity and promotes cooperation, competent and motivated employees, and an organisational culture that supports development and effectiveness. In development and training activities, we strive for forethought, consistency and systematic approach to enable the necessary level of competence to be achieved and maintained in order to ensure the quality of work. We offer flexibility in working time planning and a hybrid form of work (working in the office premises or remote working) in positions where this is possible.

It is important for us that the employees of the ETCB feel their contribution to the Board's strategy and that their goals are clearly linked to the larger goals of the organisation. In order to create the necessary capacity for the organisation, we consider it important to maintain a working environment that is attractive to both today's and potential employees, whose goals employees wish to contribute to and where consistent development is ensured. Through this we ensure that our people are working with purpose and that our skills and knowledge are sufficient to meet the challenges of an ever-changing world.

The quality of leadership and culture (i.e. how we do things) influences the performance of organisation as a whole as well as the achievement of objectives. During the current period, we are focusing on the development of leadership competencies of our managers at different structural levels and agreeing and modernising the principles of people processes. We provide internal advisory support to managers in matters related to the management of people and drawing up and implementation of development plans.

**What are our objectives?** In this strategic direction there are three main objectives.

**Objective 1: we have dedicated and competent people working for the ETCB**

Keeping in mind the desired impact, one of our main objectives is to ensure the engagement of the people working in the ETCB, which means the people's positive emotional involvement with the organisation and its objectives. Dedicated people are interested in the achievement of excellent results and sustainable development of the organisation. We aim to maintain a higher than average level of employee engagement among public authorities (in 2022 it was 72).

Measure	Outcome			Target level
Employee engagement	2020	2021	2022	2023
	71	62	74,1	>74

*Table: Employee engagement (TRI\*M index) in the ETCB.*

**Objective 2: organisation aligned by objectives**

Our purpose is to lead the organisation's units and people towards fulfilling the common goals through knowledgeable planning and communication. To this end, it is important that the employees of the ETCB are able to associate their work contribution with the organisation's goals and feel that they are supporting the general strategy.

Measure	Outcome			Target level
Organisation aligned by clear vision and objectives	2020	2021	2022	2023
	4,1	4,2	4,3	≥4,3

*Table: The indicator reflects the employees' assessments to the statement "I have agreed with my manager on the objectives of the year and how they will be assessed" in the employee engagement survey.*

**Objective 3: high-quality leadership, strong and supportive employer**

The professionalism and engagement of the staff provide the basis for the ETCB ability to meet its objectives. Therefore, the Board's ability to keep its competent employees loyal and motivated remains an important asset for success. We will assess the achievement of this objective on the basis of the measure of voluntary turnover of employees.

Measure	Outcome			Target level
Voluntary turnover indicator	2020	2021	2022	2023
	5,41%	7,1%	10,8%	≤10%

*Table: The leadership index is derived from the employee engagement survey.*