

## Customs' role in combatting the shadow economy

Customs collects roughly one-third of the Finnish state's tax revenues. In 2011 Customs collected about 10.5 billion euros in taxes, of which about 10.3 billion euros went directly to the state. In addition to collecting taxes Customs is responsible for various control and other tasks.

The shadow economy causes the state significant tax losses and adversely affects economic activities by distorting competition, among other things. The main question in the audit was whether Customs has been effective in combatting the shadow economy. The audit examined the setting of objectives, the organisation and implementation of activities and their effects on combatting the shadow economy.

Customs' basic strategies do not mention the shadow economy. The objectives contained in strategies nevertheless aid in combatting the shadow economy. The control strategy in particular focuses on controlling the legality of target groups' activities, protecting society and fighting customs crime. In the performance objectives set for Customs by the Ministry of Finance that were reviewed in the audit, special attention was not drawn to the shadow economy before 2012. Up to then Customs was set objectives aimed at improving effectiveness, which should aid in combatting the shadow economy. Combatting the shadow economy was also implied in the setting of objectives with regard to controlling compliance with the law and detecting illegal activities. One of the effectiveness objectives set for 2012 directly concerned combatting the shadow economy. In addition indicators related to Customs' development were set for combatting the shadow economy, together with target levels. Performance objectives did not specify which objectives in combatting the shadow economy the indicators were intended to measure.

In combatting the shadow economy Customs has focused on ex ante control. Customs' customer relations are based on different types of authorisations, different forms of partnerships and credit

customer relations, which depend on reviewing the customer's processes and auditing selected customers on the basis of risk analysis. Customer relations facilitate the handling of customs matters but also place obligations on customers' in-house control, which can pose a risk for collecting taxes. Authorisations granted to key and partnership customers and participation in programmes should not reduce the evaluation of the need to audit customers and risks.

At the time of the audit Customs was undergoing a reorganisation in which combatting the shadow economy was strengthened. The shadow economy now forms one function of corporate audit, and personnel resources have been increased with the help of an additional appropriation to Customs earmarked for combatting the shadow economy. The reorganisation, which came into force at the beginning of 2013, together with an earlier reform in which fighting crime was organised on a national level, demonstrate Customs' strong emphasis on combatting the shadow economy.

Customs' control and audit activities are both real-time and ex post facto. At the nation's borders vehicle, passenger and cargo traffic are controlled in real time and the validity of pre-import notifications is checked. In addition Customs conducts business, cargo and warehouse inspections and controls different customer groups' authorisations and statuses. Inspections are carried out according to an annual inspection plan based on risk analysis. Customs analyses risks involved in different functions quite comprehensively and extensively and constantly develops its risk analysis function. The organisation of the risk analysis function on the national level and the increase in resources for risk analysis support the fight against the shadow economy.

Combatting the shadow economy was not mentioned in the operational performance objectives that were set for Customs by the Ministry of Finance for the fiscal, foreign trade and protection of society task area in 2011, but some of the indicators measuring the achievement of objectives are linked at least indirectly to combatting the shadow economy. Customs achieved its set objectives at least in part. In some cases the achievement of objectives was not reported or a target had not been set so that the achievement of an objective could be compared with an indicator. Indicators measuring the achievement of performance objectives should be devised so that the targets set in objectives can be monitored and measured.

The achievement of objectives should also be reported in the final accounts.

Combatting the shadow economy concerns Customs' entire organisation. Customs combats the shadow economy by taking preventive measures and conducting real-time and ex post facto control, risk analysis is extensive and comprehensive and is constantly developed. Back taxes are quite small compared to the amount of taxes that are levied and collected by Customs. Customs has paid attention to seeing that basic functions are in order, expertise is extensive and of a high standard, and resources are adequate. On the basis of the audit Customs has good preconditions to combat the shadow economy.