

Estonian Tax and Customs Board

Improving employment verification and increasing tax collections

National employment registration has been shown to help reduce the use of illegal workers and improve worker protection. Consolidating employee information into a single electronic register also increases visibility for tax collections while reducing the administrative burdens and costs for employers and numerous government agencies using employment data. CGI was able to quickly deliver and integrate an employment register for the Estonian Tax and Customs Board (Board) in response to a new law.

THE CHALLENGE

On March 26, 2014, amendments to the Estonian Taxation Act authorized the creation of a national register of employees and their employment information. The goals for the register were to reduce the use of illegal and unaccounted workers, improve protection of workers' social rights, better regulate citizens' social benefits, and increase visibility for labor tax supervision. Starting July 1, 2014, the law required that employers register all persons they employ or intend to employ in Estonia. The biggest challenge for the Board was creating and launching this new register in such a very tight timeframe.

THE SOLUTION

The Board chose CGI to develop the electronic register based on the company's proven experience in developing mission-critical applications for governments and for offering the most innovative solution. The CGI solution, which went live on-time on July 1, enables employers across Estonia to easily register all employees with the Board prior to an employee starting work in Estonia.

The electronic solution eliminates the need for in-person visits to a service bureau for registration. Registration can now occur in a variety of ways:

- **Web registration** through the e-Tax Board/e-Customs websites by entering data manually or uploading a file
- **Registration via a machine-to-machine (M2M) interface**, using X-Road technology, the standard for integrating public registers and information systems in Estonia
- **Mobile registration** via a phone call or SMS message.

CASE STUDY

GOVERNMENT

Central and Federal Government

Key benefits

- Enhances surveillance related to labor taxes
- Reduces administration and saves costs
- Enables faster and efficient verification of employment
- Helps increase tax collections
- Enables digital processes and a paper-free procedure
- Eliminates the need for employers to submit employee data to multiple government agencies
- Allows multiple agencies to share information, eliminating duplication

"In 2012, Estonia's tax gap totaled €433 million, of which approximately 40% was from residents' income tax and social tax. With the new register, we aim to increase labor tax collection by €10 million a year."

Rivo Reitmann, Head of Service Department, Tax and Customs Board

Additionally, employers no longer must submit employment information the Estonian Health Insurance Fund or the Estonian Unemployment Insurance Fund, as that information is made available and easily accessible from the national register. Employers also can correct erroneous entries in the register within a three month period from a date of employment, suspension or termination. After the three month period, corrections must be made at a service bureau. Board employees now have greater visibility to check on employment registrations and see whether disbursements have been declared and taxes have been paid.

THE RESULTS

As of November 2014, the national employment register is being used by approximately 70,000 companies, registering nearly 600,000 employees. Due to increased visibility by the Board into disbursements and tax declarations, labor tax collections are estimated to increase to €5.1 million within the first four months of the register being live (July to November 2014). Additionally, more than 9,000 first time workers have now been registered after the employment register was launched. This was not possible previously and these workers would have been classified as illegal. Digital registration has enabled paper-free procedures, yielding the following benefits:

- Factual verification of employment in the Social Insurance Agency has become significantly faster and more efficient, considerably reducing the risk of overpayment.
- Elimination of the need to inform the Police and Border Control Agency of employment allowed for foreigners, because the information is already in the registry.
- More timely arrival of health insurance policy start and completion data has reduced the Health Insurance Fund's processing of paper-based insurance data, and reduced the likelihood of no insurance situations due to missing or invalid employment information.
- Employees can verify whether their employment is properly registered.

Connecting to the X-road

X-Road is the backbone of e-Estonia. It's the invisible yet crucial environment that allows the nation's various e-services databases, both in the public and private sector, to link up and operate in harmony. In this context, the employment register works both as an information provider as well as a consumer.

It uses the following systems offered by X-road services:

- Population Registry for accessing citizen information
- Police and Border Guard Board for accessing images
- Estonian Health Insurance Fund for accessing health insurance information.

It offers X-road services such as:

- Providing information about employees, e.g., ID, nationality, name, date of birth etc., to other government departments like Police and Border Control, Tax and Customs Board, Labor Inspection etc.
- Registration and modification of employment status in different accounting systems and departments like the Tax and Customs Board, Labor Inspection etc.

“CGI accepted the challenge and helped translate our idea into a working solution like it was their own. Employment registration is functioning smoothly and meeting our expectations. Within the first 4 months, 9,000 new tax payers were added, generating an estimated positive impact of €5.1 million on tax revenue.”

Rivo Reitmann, Head of Service Department, Tax and Customs Board

Partners in the project:

- Estonian Tax and Customs Board
- Ministry of Finance of the Republic of Estonia
- Estonian Health Insurance Fund
- Estonian Unemployment Fund
- Police and Border Guard Board
- Estonian National Social Insurance Board
- Ministry of Social Affairs of Estonia
- Estonian Ministry of the Interior
- The Estonian Labor Inspection

For more information, please contact us at government@cgi.com or visit www.cgi.com/government.