

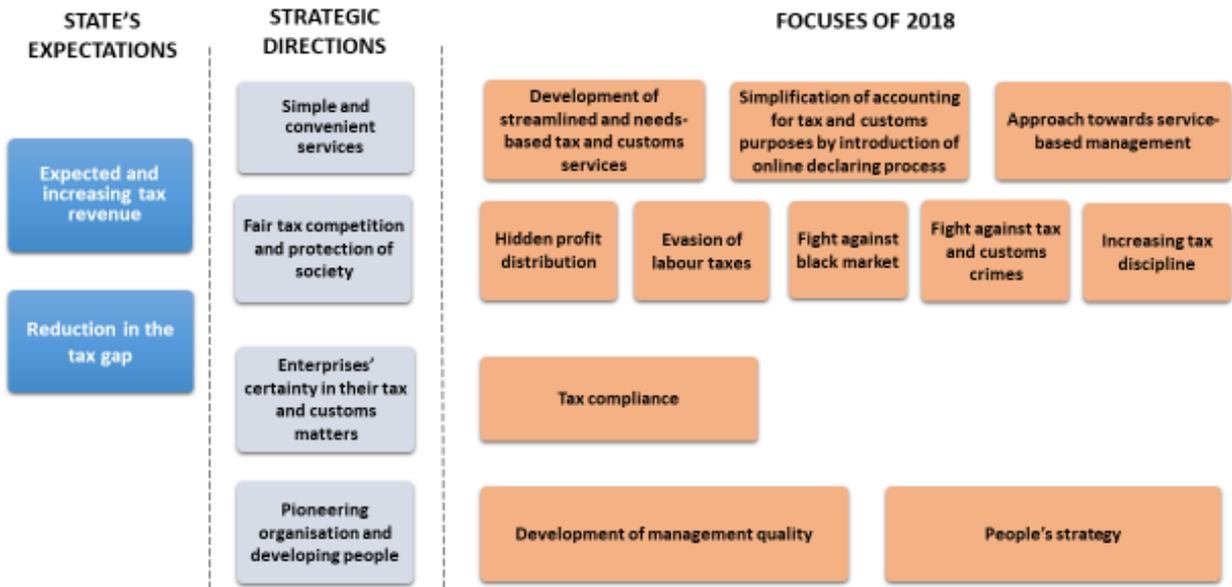
**ESTONIAN TAX AND CUSTOMS BOARD
STRATEGIC DEVELOPMENT PLAN
2017-2020**

SYNOPSIS OF 2018

January 2018

General information

The year 2018 was the second working year of the present strategic period. The strategic development plan 2017-2020 sets forth two principal tasks of the Estonian Tax and Customs Board (hereinafter: ETCB) arising from the state’s expectations and our role in the Estonian society: to ensure convenient, efficient tax collection and protect economic environment for people, enterprises and the state. In order to achieve our objectives we have set four strategic directions, which cover simple and convenient services for all ETCB clients, surveillance over more problematic taxpayers, the society’s increasing assurance on tax and customs matters and development of our staff and organisation (see the figure below). More than in the past, we are now committed to increasing people’s voluntary tax compliance.



With regard to simple and convenient services, we dedicated much effort to providing our clients with user-friendly solutions, supported by well-designed IT developments and approach towards service-based management. Our guiding principle in designing services is to offer law-abiding clients streamlined means of performing their tax and customs obligations.

In the area of surveillance, we contribute to protection of the Estonian society and ensure equal treatment of all taxpayers. In 2018, we made significant efforts to decrease the avoidance of labour taxes, including the fight against concealed salary. Another major focus was on big debtors, whose tax arrears amounted to considerable sums (79 persons with tax arrears of 181 million euros in total) in order to emphasize the importance of tax discipline and point out that tax avoidance is costly and cumbersome. With the aim of strengthening the security of our society, we continued the fight against illegal market and tax and customs crimes. The tax gap is steadily decreasing and we are going to contribute to this trend by using even more systematic and efficient actions.

In addition to simplifications for taxpayers and protection of society, we wish to rise our clients' awareness and general tax compliance. Various factors influence people's tax behaviour: e.g. trust, the relations between the tax authority and a person as well as less perceivable attitudes and social norms. If we know these factors, we can better target our activities. For this purpose, we carried out the survey on the Estonian people's willingness to pay taxes and created a corresponding index, which enables us to evaluate the impact of our activities and external factors (including the tax policy) on people's tax behaviour.

In 2018, we also adopted a strategic direction towards the development of our organisation and people with particular emphasis on raising leadership qualities and building supportive and development-oriented organisational culture. Here we set focal priorities in three areas: the people of ETCB, the management of ETCB and ETCB as an employer. We have made our first steps towards becoming a pathfinder from the perspective of both the public and private sector.

We will update this development plan document during the first quarter with the focuses of 2019.

In his centenary speech at ETCB's 100th anniversary celebration in November 2018, Valdur Laid, Director General of ETCB referred to the main focus areas and pointed out that these areas have to be effectively managed:

1. Introduction of service-based management at ETCB – for the purpose of timely, simple and effective services, which always meet the expectations of people and businesses.
2. Rapid increase in the capacity of influencing problematic businesses and people ("risk persons" in the ETCB jargon) based on their risk profiles.
3. Our own commitment and development, including the present and future employees, because an organisation is only as strong as its people are. Times and needs are changing, so we have to keep pace with these changes and develop ourselves.

In addition to the above mentioned, there are a number of critical focuses in the efficient management, which help us achieve the desired impact on our society.

The year in numbers: 2018

- Tax revenue in 2018 amounted to 7.3 billion euros, which is by 600 million euros or 8.9% more than in 2017.
- 97.55% of our services were used contactless, it means that clients did not need to contact our employees to use a service or get assistance. The share of contactless services in all services amounted to 99.38%, which vividly demonstrates that a very small part of our clients visit service bureaus to deal with their tax matters.

- Most client contacts were made in e-Tax/e-Customs (in total 9 434 540 contacts, i.e. 56.1% of all the client contacts) and on the website (in total 6 965 667 contacts, i.e. 41.4%).
- Tax arrears increased by 8 million euros, the number of debtors by 532 persons. 98.53% of all tax liabilities were paid.
- In 2018, we initiated 17 criminal procedures in respect of public proofs of claim. Since 2017, 35 proofs of claim have been under proceedings and 22 of these were completed by the beginning of 2019 resulting in the recovery of tax liabilities in the amount of 2.6 million euros.
- In 2018, we submitted 54 bankruptcy petitions in respect of debtors, most of them- 45 petitions- to big debtors, which represents a 30% increase as compared with 2017. The amount of tax arrears related to bankruptcy petitions was ca 90 million euros in round numbers.
- Twice more tax claims than in the previous year were included in the declared bankruptcy proceedings by the end of 2018 amounting to over 93 million euros (plus claims for interest). The project of big debtors had its effect on the rising volume of bankruptcy proceedings claims (see item 2.5 Increasing tax discipline).
- As a result of liability proceedings, 3% more persons than in the previous year, i.e. 101 persons had to pay their tax arrears in 2018, the amount of which was twice bigger than in the previous year – 11.3 million euros.
- We detected 6 criminal groups, whereas 3 of them were engaged in drug-related crimes (one group was involved in the carriage of drugs in postal items) and 3 in tax crimes (fuel, invoice factory and customs declarations), which make up 26 persons in total. Loss in fuel sector amounted to over 900 000 euros. As for invoice factories, we stopped the activities of 9 natural persons and 29 legal persons who had caused total loss of over 700 000 euros.
- As a result of the completed criminal proceedings, we detected the loss caused to the State in the amount of up to 8.3 million euros, whereas the prevented loss made up over 1.7 million euros.
- We seized criminal assets in the amount of 3.4 million euros.
- The contraband detected in 2018 include 11.9 million smuggled cigarettes, 1177 kg of snus, 3468 litres of illicit alcohol (alcohol at 100 % vol) and over 120 kg of various narcotic substances – including over 6000 different narcotic and psychotropic tablets. New narcotic substances were detected in postal items in seven cases with the amount of 259.162 grams in total. Water pipe tobacco was seized in the amount of 32 kg.
- The volume of detected narcotic and psychotropic substances arrived in postal and express mail items from foreign countries has remained at the same level as in 2017 (in 2016 over 600 cases, in 2017 over 700 cases, in 2018 – 741 cases). The main consignor countries were Holland, United Kingdom, Spain, Germany, USA and Ethiopia. The most ordered substances via the Internet were amphetamine, methamphetamine, cocaine, MDMA, marihuana, hashish, LSD and GBL (mostly from Lithuania).

The staff and salaries in 2018:

- ETCB is headed by a director general, who has one deputy. In 2018, the number of departments was 11.
- At the end of 2018, the number of active employees was 1338. In addition, 130 employees were on parental leave.
- The average length of employment was 16 years.
- In spite of a shortage of workers in the labour market – a situation that is advantageous to employees – only 5.11% of our employees left the service, which is the indicator that refers to a sound organisation.
- Work at ETCB is driven by modern technology and taxpayers' changing expectations. To keep pace with today's needs, ETCB is continually creating new capabilities. In 2018, a major restructuring was prepared in the services area (entered into force on 1 January 2019), the aim of which was to be ready for the increasing movement of services into electronic environment. During 2018, several new jobs were created and respective recruitments carried out: e.g. e-service designer, business architect, e-bureau manager. New technologies promote the effectiveness of working processes: the number of active workers was reduced by 3, 5% during the year.
- In 2018, we recruited 81 new employees; altogether 127 vacancies were filled by internal and external applicants.
- The average gross basic salary reached the level of 1503 euros.
- In October 2018, the development process of the organisation was awarded the Gold Label of Family-friendly Employer. In May, ETCB as an employer offering its employees a flexible work organisation was awarded the Working Remotely 2018 label.

Next, you will find an overview of strategically important objectives, results and activities based on the strategy visualized above, followed by yearly reviews of each area of activity.

State's expectations:

We ensure **expected and increasing receipt of tax to the state budget**, so that the state can perform its tasks and allocate financial means as planned. This task is assessed based on spring and summer projections. Our goal is to guarantee the 100% receipt of tax.

Indicator	Target	Fulfilment	Target	Fulfilment	Target	Fulfilment	Target	Fulfilment
	2015	2015	2016	2016	2017	2017	2018	2018
Collection of tax receipts projected to the state budget	100%	102.35%	100%	100.13%	100%	100.34%	100%	100.4%
Percentage of payment of claims in accounting period	99.45%	99.50%	99.5%	99.4%	-	98.32%	>98%	98.53%

Our essential task is to **reduce the tax gap**, i.e. tax revenue not collected, which impedes fair competition and decreases state revenue. The tax gap has been diminishing in recent years and we are working every day to ensure that this trend will continue. To evaluate our achievements in this area, we calculate the share of tax gap in the total revenue from taxes.

Indicator	Target	Fulfilment	Target	Fulfilment	Target	Fulfilment	Target	Fulfilment
	2015	2015	2016	2016	2017	2017	2018	2018
Share of undeclared taxes in received taxes (tax gap)	7.70%	6.3%	7.2%	5.4%	-	5.7%	<7%	5.4%

VAT gap in the EU. According to the calculations of the European Commission, the share of VAT gap in income tax liability was 6.8% in Estonia in 2016, which is somewhat bigger than in 2015 (6.3%) but remains well below the European median (10.6%). As for this indicator, we are staying at the forefront in Europe.

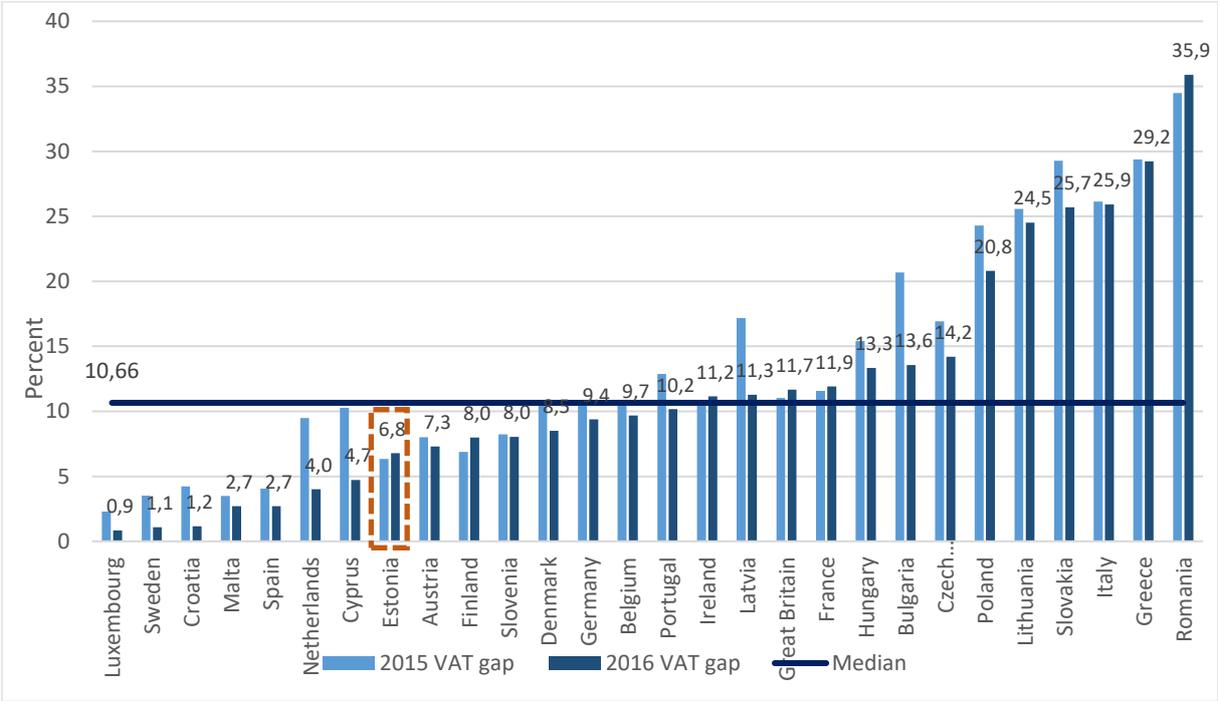


Figure: Comparison of VAT loss by the EU countries

STRATEGIC OBJECTIVES 2018

In order to meet the state’s expectations today and tomorrow, we have set up four strategic directions. Below, an overview is given of the activities carried out under these directions along with their results.

1. Simple and convenient services

While designing services, ETCB follows the principle that we have to offer our law-abiding clients simple, fast and streamlined means of performing their obligations in respect of the tax and customs authority. Therefore, it is essential to reduce clients’ administrative burden and take a flexible approach towards the expectations and needs of different target groups. We believe that further development of our services and introduction of new smart solutions is of utmost importance in striving for customer-driven approach.

We measure customer satisfaction by a transaction-based promoter index. We have set a target level of 60%, which for us indicates an excellent satisfaction with our services. In 2018, the promoter index was 61%, which means that we successfully achieved our target. In the figure below, green bars show satisfaction with all the measurable ETCB services.

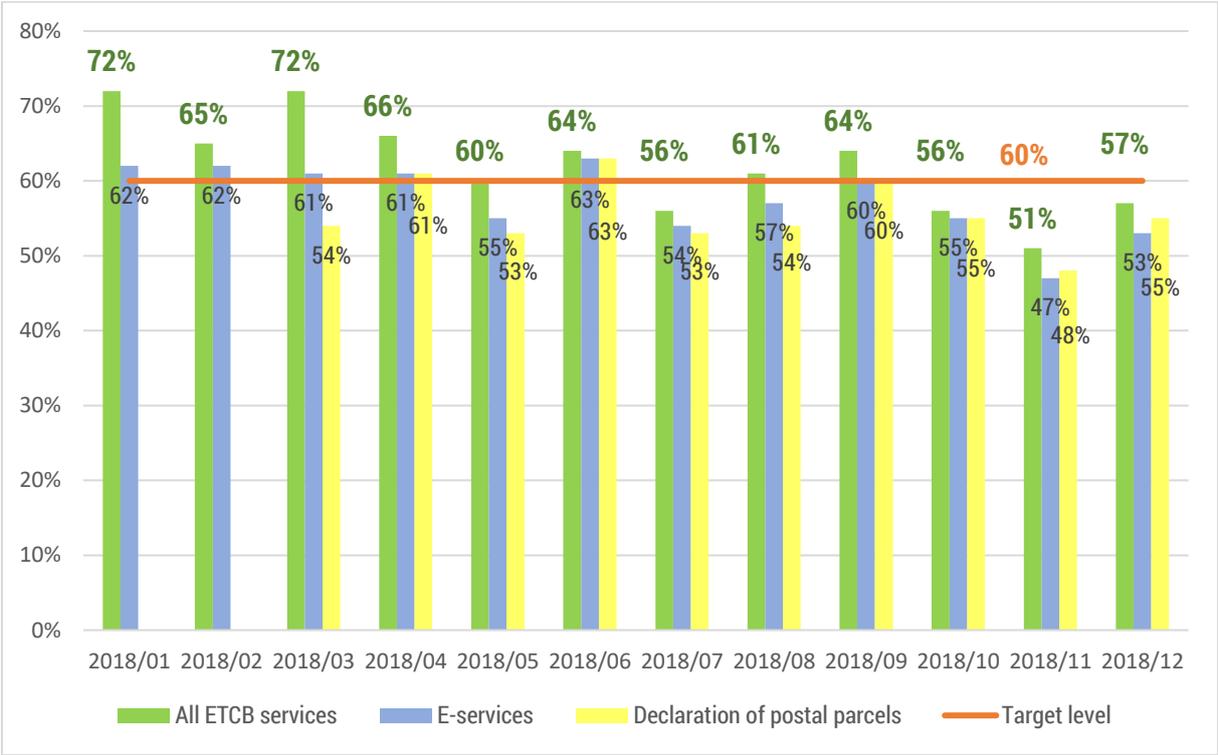


Figure: Breakdown of the promoter index of ETCB by months in 2018

In 2018, we had three focuses under the strategic direction of simple and convenient services. The following activities contributed to these focuses.

1.1 Development of streamlined and needs-based tax and customs services. Most important activities:

Developments completed in 2018: further development of settlements, cash-in cash-out, e-resolution of the registration for VAT purposes for value added tax groups, My income, further developments and new visual design of the employment register, VAT information exchange system (VIES), the upgrade of economic operators registration and identification system (EORI2), which offers traders a convenient and simple way of getting a unique EORI number common across the EU.

Developments that were in progress in 2018 and are continuing in 2019: user administration, the administration of access rights and authorisations, persons' administration and authentication (KIPS), desktops, new land tax information system, new information system of excise duty returns (ADEK), information on persons' tax behaviour; upgrades of the information system of natural person's income tax return; import declarations' processing system (Complex3/Impulss), fuel handling system and stock records and reporting database (KKS/LAAK), supplements to the income tax and social tax return (TSD) in connection with amendments in the taxation of profit.

- In 2018, we updated and developed a number of services – registration for VAT purposes for value added tax groups, registration of employment, intra-Community VAT information exchange system (VIES), economic operators' registration and identification (EORI2). The cash in- and outflow functionality was technologically upgraded.
- Developments of services that were in progress in 2018 and are continuing in 2019: user administration, the administration of access rights and authorisations, persons' administration and authentication (KIPS), new client desktop (e-MTA), performing land tax obligations, submission of excise duty returns (ADEK), information on persons' tax behaviour; upgrade of natural person's income tax return; import declarations' processing system (IMPULSS), fuel handling system and stock records and reporting database (KKS/LAAK);
- We committed to updating the European customs area, i.e. gradually implemented the Customs Code. We reviewed customs permits and licences in the context of new conditions. At the end of 2018, the last 10 enterprises / 30 licences were under proceedings.
- We developed and implemented the EU customs systems, including the customs declarations processing system (Complex) to guarantee up-to-date customs services to all the customs clients of ETCB. By the end of 2018, we had conducted the analysis of new import declarations processing system (IMPULSS) and drawn up the first version of the application for financing.

1.2 Simplification of accounting for tax and customs purposes by introduction of online declaring process. Most important activities:

- In 2018, we mapped the legislation that lay down the requirement of submitting data in a structured format (declarations, returns, applications, permits).
- We found a solution to the entrepreneur account. The development carried out by ETCB was completed in November 2018, but the implementation had to wait until the LHV bank finished the development of their interface in January 2019 (10.01.2019).
- Likewise, we were working on the project Reporting 3.0, the aim of which is to receive data required for the calculation of labour taxes and VAT directly from accounting systems.

1.3 Introduction of service- and process-based management. Most important activities:

- We carried out the pilot project of ensuring the functioning of services and change management, taking the information system of the declaration of income tax and social tax (TSD) as an example.
- We prepared for the transition of service-based management, aiming at formulating the public services offered by ETCB and creating relevant content into these services as well as agreeing upon the framework of service-based management and implementation thereof.

2. Fair tax competition and protection of society

Although one of ETCB's objectives is to simplify the payment of taxes, we also have to deal with problematic taxpayers. Here we abide by the principle that unfair behaviour should be costly and cumbersome so that it would not pay off. In such a way, we will ensure equal tax competition in Estonia and protect our society from the threats arising from tax evasion.

Activities in respect of this objective are mostly measured by two significant indicators: we monitor the percentage of the persons with positive risk score and the impact of our consultations and controls on changes in the number of persons committing infringements. As you can see in the figure below, the percentage of the persons with positive risk was 81.29%.

Indicator	Fulfilment	Target	Fulfilment
	2017	2018	2018
Percentage of persons with positive risk score	81.88%	85%	81.29%
Impact of consultations and controls	74%	76%	78%

Table: Percentage of persons with positive risk score, impact of consultations and controls on infringements

Our second strategic direction included five focuses, in respect of which we set objectives and dealt with the following issues:

2.1 Hidden profit distribution

One of our objectives was to decrease the number of persons with negative risk score (tax loss > 12 500€) with respect to contribution to and disbursements from equity capital. In 2018, the percentage of risk persons was 6.1%. We did not reach our target of 5.9%, but the difference is marginal. The amounts of risky contributions and disbursements have significantly decreased by quarters. In this area we prevented the loss of income tax in the amount of 29.5 million euros and collected 0.3 million euros (300 000€). The prevented amounts include contributions and disbursements in 2018 as well as in the previous years, i.e. the years that have not expired yet.

Likewise, we tried to reduce the number of persons with negative risk score (tax loss > 125 000€) with respect to misuse of exemptions on dividends. The number of persons with negative risk score in the misuse of exemptions on dividends in 2018 increased a little as compared with the previous year, so we consulted and controlled these persons. At the end of 2018, the percentage of persons with negative risk score was 7.5%, which was significantly lower than our target level 12%. Loss prevented was 87.2 million euros and receipt was 250 000€.

Main activities:

- To achieve our objectives we wished to establish a practice of raising taxpayers' awareness of nuances of transactions subject to income tax. On contributions to and disbursements from equity capital, we introduced an administrative practice as well as a judicial precedent, which helped to raise taxpayers' awareness. As for dividends, we

established an administrative practice, but judicial precedent has not come into effect yet.

- In establishing a practice, the most influential activities are consultations and controls.
- In close cooperation, the Legal department and Tax department made efforts to give a meaning to binding preliminary rulings and responses to enquiries in the field of income tax.

2.2 Evasion of labour taxes

When it comes to the fight against concealed wages, the year 2018 was dedicated to setting objectives and targets. The most important steps were establishing a working group/management model for dealing with concealed wages, defining objectives, identification of TOP actions (projectable measures), planning and implementation of the actions of "wildly important goal", training of tax auditors in contacting/consulting on the subject of concealed wages and establishing a common practice. We introduced new approaches: „nudging" the construction sector, the first case of a worker's responsibility, regular dissemination of regional media messages.

Indicator	Fulfilment	Fulfilment	Fulfilment	Fulfilment
	2015	2016	2017	2018
Percentage of workers receiving concealed salary	11%	8%	13%	(data available in spring-summer 2019)
Change in the percentage of risky businesses in respect of concealed wages (in a county)	-	-	-	23.47%

Table: Percentage of workers receiving concealed salary, change in the percentage of risky businesses in respect of concealed wages in counties. The indicator of change in a county shows the percentage of risky businesses by counties.

Main activities:

- The Tax audit department completed 183 audits on labour taxes. In addition, the department made 137 contacts, in the course of which it was not necessary to start proceedings. 423 proceedings related to the employment register were conducted in respect to problematic persons (which in many cases included also corrections in tax returns).
- Taxes imposed totalled 6.21 million euros (including corrections in tax returns).

- There were 928 consultations on concealed wages during 12 months, including 58 consultations in the course of audits and 568 consultations in the fourth quarter (Nov-Dec) in the framework of activities aimed at decreasing the percentage of persons with the risk of paying concealed wages.
- Officials of ETCB (Customs department and Investigation department) carried out checks over the employment relationship of 8686 natural persons within 12 months and found 573 persons who had not been registered with the employment register (6.6%). As compared with 2017 (12 months), the percentage of such persons was 6.44%, which means that the percentage of unregistered persons detected by ETCB had somewhat increased.
- In October 2018, ETCB sent notifications to the workers in construction sector (II stage of nudging) due to low wages paid by their employers. Altogether 5715 workers from 1590 companies received the notification. The effect of such notification letters was not significant. 20 companies made corrections in income and social tax returns retroactively (i.e. 1.25% of all the companies related to the persons who received the notification). Neither the information on the following two-month period did reveal any considerable impact, so the disbursements of declared wages did not grow. III stage of nudging was planned for the period of submission of the 2018 income tax return of natural person (from February to March 2019).
- In 2018 we received 1115 hints about concealed wages, among which the most came from construction sector (207), followed by „other“ (195) and catering sector (82). As at the end of 2018, 85% (762 cases) of the 900 hint proceedings revealed that risks were low or missing at all, 13% (116) of the cases involved checks and 2% (22) were directed to subsequent verification. As a result of the proceedings launched by hints, ETCB recovered taxes (including corrections in the tax returns) in the amount of 249 000 euros.
- In 2018, the Tax audit department carried out 2143 consultations, including 208 in the course of tax audit. Most of the consultations (928) were carried out on concealed wages.

2.3 Black market

The fight against the black market of alcohol, tobacco and fuel on the EU eastern border is one of our most important commitments to the protection of the Estonian society. In 2018, the amounts of the contraband detected were as follows:

- 11.9 million illicit cigarettes (cf. 15.3 million in 2017).
- 1,177 kg of snus (390 kg in 2017)
- 32 kg of water pipe tobacco (27 kg in 2017)
- 448 litres of liquid for e-cigarettes
- 3,468 litres of illicit alcohol at 100 % vol (3,870 litres in 2017).

Indicator	Fulfilment	Fulfilment	Fulfilment	Target	Prognosis
	2015	2016	2017	2018	2018
Illicit alcohol market	8.7%	3.6%	4.7%	-	11.7%
Illicit tobacco market	11.7%	11.1%	15.13%	-	5.10%
Illicit fuel market	5.3%	5.7%	7.8%	7.27%	7.3%
Price of illicit cigarettes (ratio of the price of illegal cigarettes to the price of the cheapest legal cigarettes)	69%	67%	67%	-	-

Table: The percentage of illicit alcohol, tobacco and fuel market, ratio of the price of illegal cigarettes to the price of the cheapest legal cigarettes

Likewise, we monitor changes in detections through random selection on the EU eastern border with the view of evaluating border-crossers' customs compliance. The table below shows that the target level of monitoring checks' average detections was <3.0% (in 2017 it was 3.4%; in II half of 2018 - 3.8%). The aggregate figure in 2018 was 3.7%. The figure was bigger, because the number of border-crossers had increased and tobacco grams and liquid millilitres were added in the calculation.

	Basic level (2017)	Target level	2018 in total
Detections in monitoring checks on the eastern border	3.4%	<3.0%	3.7%

Table: Detections in monitoring checks on the eastern border

Main activities:

- Improving the quality of services and measuring clients' feedback. We received positive feedback in the Narva border point (>95%) as well as in the Tallinn Airport cargo terminal (97%) (including the proportion of reasoned complaints).
- Likewise, we focussed on the prevention of smuggling:
 - We performed 9,238 road checks, in the course of which we detected 793 offences, i.e. 8.6% of the checks.
 - The Investigation department performed 116 checks at ports and airports without stationary customs control. Two offences were detected; detection rate was 1.7%.
 - We performed 93 searches in the course of misdemeanour proceedings, detecting 53 offences related to illicit cigarettes and/or alcohol. We performed 107 hint-driven checks, which resulted in 42 detections of offences, i.e. 39% of all the cases.
 - To control the movement of goods at the „green border“, the routes of mobile units were brought into line with risks in the immediate vicinity of the green border.
 - Regional joint operations with the Police and Border Guard Board have become a common practice. In this collaboration, we started a new initiative – control ground at sea border.

Moreover, we have contributed and are continually contributing to the activities of Customs Eastern and South-Eastern Land Border Expert Team (CELBET) to harmonise customs controls and fight against black market on the EU eastern border. We promoted the creation of the network of the heads of customs offices and performance of random checks in order to measure the level of black market.

2.4 Tax and customs crimes

We aspired to reach the target level of 65% in measuring the percentage of criminal proceedings commenced by the Investigation department, where a subject/object is indicated in the risk assessment and/or related to the ETCB priority area in surveillance. The result of 2018 was 82%.

The percentage of successfully completed criminal proceedings (sent to the prosecutor's office with a summary note of pre-court procedure) out of all criminal proceedings was 79%. Our target level was 65%.

In the case of 11% of the criminal cases sent to the prosecutor's office, significant information regarding the subject of proof was obtained from foreign countries (target level was 15%).

23% of cases sent to the prosecutor's office included the analysis of proceeds of crime (target level 20%).

Main activities:

- Mapping criminal threats that influence the tax environment and protection of society, which serve as a basis for setting up targets for criminal procedures.
- Development of the ways of gathering operative information through specialisation among the officials and ensuring modern technological devices.
- Participation in international working groups of cooperation in criminal matters and development of cross-border exchange of operational information.
- Development of capacity in identifying the proceeds of crime.

2.5 Increasing tax discipline

In 2018, we influenced big debtors through bankruptcy proceedings. We used bankruptcy petitions as a probation measure to incite the debtors to deal with their long-forgotten liabilities. For this purposes we delivered bankruptcy caution, submitted bankruptcy petitions, financed bankruptcy proceedings and negotiated with the persons concerned.

The project of big debtors was completed and its objective was fulfilled. The sample and its specifications affected 79 persons (total tax arrears amounted to 181 million euros) whose cases were perused and appropriate actions chosen and applied. In respect of 45 persons from the sample the action of bankruptcy petition was applied, the objective was executed in the proceedings of 38 persons and 7 persons are awaiting court activities.

Bankruptcy petitions were not submitted in respect of 34 persons. Nudging has brought ca 450 000 euros to the state budget. Follow-up activities will continue during the coming periods – court and bankruptcy proceedings take a long time. In future we are going to treat big debtors as a part of the ordinary process, so as not to create a separate sample.

Likewise, we follow the percentage of reporting-obedient clients and payments in order to increase tax discipline.

Indicator	Target 2018	Fulfilment 2018
Percentage of reporting-obedient persons	>97%	97.64%
Percentage of payments	>98%	98.53%

Table: Percentage of reporting-obedient persons, percentage of payments

Main activities:

- We submitted 17 public proofs of claim to criminal proceedings last year, which, since 2017, totalled 35, including 22 proofs of claim completed by the beginning of 2019 along with tax liabilities recovered in the amount of a little over 2.6 million euros. As a result of liability proceedings, we obligated 101 persons - which is by 3% more than in the previous year - to pay their tax arrears in 2018. The tax liabilities of these persons amounted to 11.3 million euros, which is around twice the amount of the tax liabilities in the previous year. Since 2007 similar proceedings have been successfully concluded in respect of ca 800 persons along with tax arrears totalling over 83 million euros.
- To recover tax arrears related to joint property and recovery of property, we instituted the same number of proceedings as in the previous periods. We submitted 21 statements of claim comprising the calls for payment in the amount totalling nearly 3 million euros. The degree of positivity of court proceedings remained high - 95%.
- As for bankruptcy proceedings, we continued our work even more energetically. As a creditor, ETCB submitted 54 bankruptcy petitions, among others 45 petitions in respect of big debtors, which is nearly 30% more than in the previous year. The amount of tax arrears related to the bankruptcy petitions was some 90 million euros.
- As at the end of 2018, bankruptcy proceedings included two times more tax claims than in the previous year – for over 93 million euros plus claims for interest. The impact of the big debtors' project increased the number of bankruptcy petitions. There were 18% more unfinished bankruptcy proceedings as compared with the previous year, the number of proceedings being 1328, half of them (654 proceedings) dealt with tax claims from 10 €.
- The compulsory enforcement of tax claims was influenced by the ruling of the Supreme Court of 10.10.2018 in the case 2-17-12525, which changed the practice of limitation period of the compulsory enforcement of tax claims. So far, the compulsory enforcement of tax claims was practically timeless, in other words, a limitation period was interrupted when a tax claim was sent to the bailiff, and a new limitation period of five years started after the completion of execution proceeding. Now, according to the new principle, the limitation period of the compulsory execution of tax claims is five years, starting from 1 January following the year when the execution proceeding was started, if there are no other grounds for suspension or interruption of limitation period. Due to this ruling, we withdrew bankruptcy petitions and wrote off the tax liabilities of nearly 2500 persons in the amount of 10 million euros.
- In 2018, an amendment was adopted to the Taxation Act that enables to widen the range of persons subject to liability proceedings: an executive director of an enterprise who is not a board member will be held accountable for compulsory enforcement of tax liability. It means that from this year an executive manager, who cannot be held accountable in the role of board member according to the provisions in force, also has to take responsibility for the intentional behaviour that caused tax arrears. The impact

of such a change can be assessed from the entry into force of the amendment in 2019, so the results of the relevant proceedings can be analysed not before 2020.

3. Assurance on tax and customs matters

In addition to simplification of paying taxes and protection of society, we are increasingly aspiring to raise the Estonian people's awareness and overall tax morale. People's tax behaviour depends on a number of determinants: trust, relationship with the tax authority as well as less perceivable attitudes and social norms. If we know these determinants, we can better target our activities.

For this purpose, we set the objective in 2018 to carry out the survey of the Estonian people's willingness to pay taxes, which would help us identify people's attitudes to taxes and norms, and their intended behaviour. Based on the survey we wished to create the index of willingness to pay taxes, which would be periodically monitored so that we can more precisely target our activities and communication by different client segments.

During 2018, a framework was set for establishing the willingness to pay taxes and factors that influence such willingness (knowledge, attitudes, norms, perception of behaviour). The framework was used as a basis for a questionnaire of the survey, which was carried out with the help of the research agency Emor. We received the results by the end of October. The survey included the creation of a conception of tax paying willingness. The value fixed for the index was 65 out of 100 points (see the table below). Increasing the willingness to pay taxes is one of the ETCB's focuses, which is dealt with according to the agreed management model and relevant objectives concerning its effect and performance.

	Indicator's proportion in the index	Value in the 2018 index
Knowledge	25	14
Attitudes	25	16
Norms	25	18
Behaviour	25	18
Summary index score	100	65

Table: Index of willingness to pay taxes and indicators therein

We believe that our cooperation with taxpayers should be characterized by mutual trust, therefore ETCB, for its part, is committed to increasing the trustworthiness of the organisation

among the residents of Estonia. In the last quarter of 2018, the trustworthiness of ETCB increased up to 76%, which was 1.6% higher than in 2017.

Main activities:

- Consistent media relations and communication of key topics (concealed wages, basic exemption, natural person's income tax return) have supported the achievement of the objectives.
- Expressions of opinion by the members of management have caught the attention of the media, but the coverage has been episodic.
- Survey on the willingness to pay taxes was carried out and we have an overview of the determinants influencing the willingness to pay taxes as well as the shortcomings in this area.
- Developments of the ETCB intranet have been finalized, the process of closing the old version is continuing.
- Content creation of the Daily e-Mail focussed on the activities related to the main objectives of the organisation.
- Preparing information materials for the Tax education project was started (slide presentation, tax diagram) and is continuing at the beginning of 2019.
- Visits to schools start in the first quarter of 2019.

4. Pioneering organisation and developing people

In order to play our role in the society as well as possible, it is important to continuously develop our organisation and support internal diversity and innovation. Such an approach calls for the good understanding of labour market's trends as well as our own needs that arise from our vision, knowledgeable building of organisational culture, supporting the efforts of our employees, sustainable developing of the staff, planning the hiring of new recruits and introduction of new working methods. We wish to create a working environment that attracts competent and dedicated people who are interested in their work through which they want to contribute to the development of Estonia.

The more employees are satisfied with their working environment, the more they commit themselves to their work. To understand the level of satisfaction of its employees, ETCB regularly carries out employee satisfaction surveys (ESS).

Indicator	2013	2015	2017	Target for 2019
ESS overall assessment (max 5 points)	3.50	3.82	3.99	4.00

Table: Employee satisfaction (Source: ESS 2017)

Under this strategic direction, we concentrated on two focuses.

4.1 Development of management quality

Our objective was to raise the awareness across the organisation of the role and competence of managers in the achievement of results, to harmonise the understanding of the criteria of good leadership and to establish a common framework for the development of the organisation's overall management quality. Likewise, we wished to bring necessary innovations to human resource management processes, including the appraisal and development of managers as well as selection and recruitment of new managers.

Main activities:

- In 2018 we described the management competencies of ETCB' managers, involving the managers working in key positions in this development process. Managers' competencies help interpret the strategy into the language of manager's behaviour, clarifying the idea that managers' activity ensures the implementation of strategy.
- We supplemented the programme of managers' development and appraisal interview with a subdivision on management competencies. This innovation means that during an appraisal interview managers treat the role and behaviour of a manager as a separate subject, evaluate their achievements in this context as well as identify their development needs. The employee appraisal software PlanPro was updated accordingly.
- The model of management competencies described above is used in other related personnel processes as well, including selection of applicants for leading positions in recruitment and working out development programmes.

4.2 Development of organisational culture and environment

The People's strategy was an important key word in 2018. The objective was to set a common direction for the management of people and development of competencies, which arises from the ETCB strategy. It was agreed that this direction is described from three viewpoints:

- ETCB people – which competences do we need today and tomorrow? Which competencies should we develop in the today's staff and which knowledge and skills should we outsource?

- ETCB management – what is the quality management for ETCB, how will we ensure it?
- ETCB as an employer – what are we like and who will we want to be so that good people would like to be and come here?

Main activities:

- In 2018 we described the strategic direction of HR management „Pioneering organisation and developing people” bearing in mind expected impact, activity areas and performance targets.
- For the implementation of the strategy, we drew up an action plan and implementation plan, including the specification of involving formats and the extent of internal communication.

Other important activities by areas of activity

The above-mentioned activities were described using a strategy-driven approach. In addition, there were other important achievements in 2018, the overview of which is given below broken down by areas of activity.

Internal control

- Participating in ETCB's development activities has become a common practice for the Internal control department. The department mostly contributed to data protection and information security areas by consulting and helping in finding new solutions as well as testing the security of existing solutions (data exchange contracts, security of applications' functioning, data exchange, logs etc.). The requirements that guarantee security checking of the application being developed and data protection are set out in the development procedure.
- In 2018, a significant contribution was made to the preparation of the statute of the register of taxable persons and the implementation of general data protection regulation in ETCB. The former has been submitted to the government without significant comments; the latter was assessed to be efficient by the audit.
- In 2018, disciplinary actions were initiated against ten officials, who due to negligence or gross negligence had ignored the requirements of processing the data subject to restricted access, and pursuant to the Anti-corruption Act the requirement of procedural restrictions. Although the number of infringements has not significantly decreased as compared with the previous year, the control system can be deemed as functioning – offences are detected and have been caused by carelessness of the official, not by ignorance of the rules put in place.

Administration and maintenance

- The Administration department made a considerable contribution to better working environment: in 2018 improvements were carried out to the service halls at Võru and Kuressaare, moving works related to the structural changes were organised at the Lõõtsa house and the customs' workrooms were prepared in the new logistics centre of Omniva.
- Modern customs technology is fully serviceable. From May 2018, new x-ray equipment was put into service; in August we concluded the maintenance contract of the railroad x-ray scanner at Koidula Border Crossing Point and the relevant modernization works were carried out. The percentage of the scanner's availability was higher than expected (average 99.3%, target 96%). By the end of 2018, we had finalised together with the Customs department a long-term vision of the replacement/re-equipping of the customs technology along with more precise mapping of acquisitions for the coming years.

- The administrative department dealt with budgeting reporting. The management of ETCB was regularly briefed about the execution of the budget and estimations thereof. We drew up an expenditure plan for 2019. The list of services under the project of activity based state budget (TERE) was agreed upon. We completed the 2018 expenditure model and 2019 budget model. Requests for additional financing of the state budget strategy will be presented following the activity-based data format at the beginning of 2019.
- We coordinated the transition from records administration to information administration. Alongside the update of the statute of the register of taxable persons, we reviewed the list of applications and compositions of data. Collation of these data with the list of documents was not completed in 2018. From the beginning of 2019, the procedure of information administration will be brought into effect, which, *inter alia*, sets out the rules for destruction of data that have overrun a deadline.

Legal department

- The Legal department and the former division of special proceedings of the Revenue department merged in 2018. Main keywords in this process were unification of human resource, keeping up motivation, clear tasks, new structure and new job descriptions. By the end of 2018, we had made a good progress in team building. Today, the department's daily work is running smoothly and line managers are working well together. To ensure necessary communication between team members we hold regular information/strategy/targeting/feedback meetings.
- We participated in drafting bills that support the implementation of the organisation's strategy. Amendment requirements to the Liquid Fuel Act, Taxation Act and of the provisions governing the use of ETCB'S e-services (e-Tax/e-Customs) as well as the statute of the taxpayers register were analysed and prepared. Relevant proposals were presented to the Ministry of Finance. We worked out a legal framework for discontinuing the use of declarations/returns and presented the relevant amendment proposals to the Ministry of Finance.
The Liquid Fuel Act and Taxation Act, to which we gave high-quality input, have been passed. The Statute of the register of taxable persons has been drafted and the Ministry of Finance has approved it. The content of the objective to discontinue the use of declarations/returns has changed and we are dealing with it based on the 2019 approach.
- We offered legal consultations to the other departments of ETCB. We consulted the Customs department and Tax Audit department on the implementation of changes in some taxation principles.
- Two lawyers participated in the working group of capital income. The lawyers who are involved in VAT questions also participate in the income tax working group, concealed wages working group and e-commerce working group. In 2018, the first cases of

concealed wages where income tax was imposed on the employee, not on the employer, resulted in a notice of assessment with the help of the Legal department. Moreover, we supported the misdemeanour proceedings unit of the Tax audit department in the case, which was new and of high priority for the unit, related to section 279 of the Penal Code on obstruction of state supervision. The case took effect in favour of ETCB. Based on the input from the Customs department we compiled a guideline that helps customs officers at the border – section 69 of the Customs Act: attempted misdemeanour upon export of goods.

- We participated in the working group of modernising the commercial register. The modernisation aims at providing the register with up-to-date and reliable content and data, which can be efficiently used.

Intelligence department

- We adjusted our management structure to better correspond to the organisation's expectations.
- Considerable progress was made in the impact-driven analyses. The main development challenge is to build a common understanding of the impact-driven surveillance.
- During 2018, strategic indicators were agreed upon in collaboration with the departments of ETCB.
- One of our objective was to create an automatic risk-monitoring model for the surveillance system of warehouses in order to reduce the number of fuel excise duty and VAT frauds; the risk models and reports are being prepared.
- To establish a vision of persons' tax behaviour, the likelihood of being selected for checks was analysed in technical and practical terms, discussions were carried out with the other departments on the calculated method.

Tax Audit department

- For 2018, we were seeking to increase detections based on existing risk criteria. By the end of the year, the score of INF risk criteria was 80%.

Customs department

- In the border control area we implemented a good practice. 95% of all the respondents to the customer satisfaction questionnaire was satisfied with our services. There are less than five reasoned complaints across the customs area of activity.
- We have improved the availability of customs information on ETCB's webpage (relief from import duties, origin of goods, short overviews of the amendments in customs legislation).

- In relation with the introduction of the trans-European customs decisions system, we continued the reassessment of customs licences. Ten companies are still waiting the reassessment of their licences. 123 licences have been entered into the system. The functioning of the customs decisions system was problematic until November 2018.
- In relation with the increased interest by Estonian enterprises in participating in the supply chain of e-commerce related to third countries we carried out the following activities:
 - analysing/describing the process of e-commerce in cooperation with economic operators engaged in e-commerce;
 - seeking for the possibilities to involve economic operators in the customs control process, which would enable us to handle increasing volumes of trade from 2021;
 - participating in the EU working group of e-commerce, which has resulted in the plan to include a separate declaration format for small consignments in the EU Customs Code (similar to the Estonian postal parcel solution);
 - participating in the e-commerce projects of Enterprise Estonia and the Ministry of Economic Affairs and Communications as well as in other international e-commerce projects (Hansatee, One Belt One Road);
 - private consultation of the clients engaged in e-commerce.
- We finalised building X-road capacity for the customs main service, implementing information exchange for import and export declarations through machine-to-machine (M2M) interface. X-road has accelerated e-services five times (lodging a declaration on the web takes approximately 25 minutes, via X-road it takes approximately 5 minutes).
- We established an expert team of customs information technology (ETCIT), the aim of which is to find cost-efficient solutions in the development of customs information systems in cooperation with interested Member States. The team is led by Estonia. In addition, we are participating in three subgroups. The team started its work in October 2018.
- We implemented three major amendments to the EU customs legislation, the most important of which is related to the security of customs debt, which releases a person from the obligation to secure the part of customs debt that is not covered by security with its own funding.
- Work in the following EU collaboration formats is continuing:
 - the working group of entry formalities with the objective to describe the EU-wide customs operations related to the entry of goods along with relevant technical messages. To date, the EU-wide business processes have been described and approved. The work on technical messages is continuing.
 - The collaboration network of the Single Window working group for the implementation of paperless logistics and digitalisation of supply chain via single communication channel. The main objective of the working group is to

define SW that is suitable for all parties and make proposals for establishing the legal basis.

- The e-manifest working group with the objective to digitalize the cargo manifest used in maritime transport. The completion of a functioning prototype was planned for the autumn of 2018. Now, it is not operational and the environment is still unstable.
- Think-tank of customs future, the objective of which is to take a long-term view and evaluate the world's megatrends and their influence on the Customs Union. The first analysis was conducted in 2018, which includes four potential scenarios.
- Since March 2018, we have carried out customer satisfaction surveys for persons who order postal parcels from third countries (today's score is between 50 and 60%). Based on the survey questionnaire we planned the development activities for 2019. Priority no 1 is supplementing the list of goods. To improve the user experience, we created a visual manual. In order to improve the service we sent our guidelines and proposals to the couriers so that they can change their internal work organisation to speed up customs clearance.
- We started preparations for handling the impact of BREXIT, including analysis and communication. Based on the EU Commission's guidelines we carried out preliminary analysis of changes in the information systems in the case of different scenarios. These changes are technical ones, which can be realised by joint resources of RMIT and ETCB. In cooperation with the Intelligence department, we assessed the impact of BREXIT on customs operations, which revealed the increase of import-export declarations by ca 20%.

Human Resources Management

- Ensuring the availability of successors who replace the employees who will leave the service: among other things, the curriculum (modular learning) of the Financial College of the Estonian Academy of Security Sciences (EASS) was updated, an additional measure was worked out for the recruitment of EASS students passing their practical training at Narva, Luhamaa and Koidula border crossing points. 18 EASS students entered employment in ETCB.
- We offered development and training possibilities to our trainers engaged in internal trainings as well as public customer training events so that they could improve their training and presenting skills. We established an Internal Trainers' Club.
- We designed and implemented two successful development programmes aimed at raising our employees' professionalism: the tax auditors' development program and the customs basic training.
- We initiated the project of updating ETCB's image in the role of an employer, the output is expected for the next year.

Development activities

- We were aware of the strategically important investments, IT investments were covered by the development plan of 2018 (including the works indicated in the e-MTA2020 roadmap and arising from the coalition agreement).
- All the strategically important investments received financing.
- The strategically important investments were either carried out or reached an important development phase by the end of the year. Descriptions that are more detailed are provided in several items above under relevant subjects.
- The development procedure is up-to-date, offering guidelines for development processes (including testing procedure). Major changes are planned for 2019 in relation with the introduction of service-based management.