

// GREY ECONOMY CONTROL
– STATISTICS 2015





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// STATISTICS OF
THE FINNISH TAX ADMINISTRATION



// STATISTICS OF THE FINNISH TAX ADMINISTRATION

THE GREY ECONOMY INFORMATION UNIT

The act regulating the operations of the Grey Economy Information Unit (1207/2010) entered into force on 1 January 2011. Under the act, the task of the unit is to promote and support the combating of the grey economy by providing and disseminating information about the grey economy and the combating of the phenomenon.

As part of its information provision task, the unit is also obliged to actively provide and disseminate information about the grey economy. The unit prepares reports on different areas of the grey economy in support of this task. In 2015, the unit completed a total of 55 information provision tasks. During 2015, the unit published reports on offences aimed at hampering tax control, business tax liabilities, warehouse operators of the Finnish Customs, real estate and landscape management, foreign exchange operations and purchases by the City of Helsinki.

In 2015, the unit produced the report 'The Grey Economy' and a series of statistics on the supervision of the grey economy, both of which are annual publications. A total of eight articles written by experts also appeared on the Finnish Tax Administration website during 2015. This service provides readers with a concise overview of the reports published by the unit.

The second statutory task of the unit is to prepare obligation compliance reports requested by the authorities. The obligation compliance reports prepared by the unit provide the authorities with information about the operations of organisations and the activities of the persons connected with them, finances and connections of organisations and the way in which organisations manage their obligations concerning taxes and other fees under public law.

The unit's obligation compliance service provides the authorities entitled to request obligation compliance reports with flexible access to the corporate data resources of the public

administration. The obligation compliance reports have been used more extensively than expected. During 2015, the Grey Economy Information Unit prepared a total of 202,184 obligation compliance reports for its customers at the request of different authorities.

Based on the reports prepared in cooperation with its stakeholders, the unit could expand its obligation compliance services still further. During 2015, the unit established service interfaces with the Unemployment Insurance Fund and the Money Laundering Clearing House of the National Bureau of Investigation. The service interfaces with the Finnish Customs, Finnish Centre for Pensions and the Occupational Safety and Health Administration of Finland (contractor's obligations and liability and supervision of the employment of foreign nationals) are planned for 2016. As part of the overhaul of the money laundering legislation, the unit proposed a legislative amendment under which obligation compliance reports could be prepared in support of the efforts to combat and investigate money laundering and funding of terrorism by foreign exchange operators and business service providers.

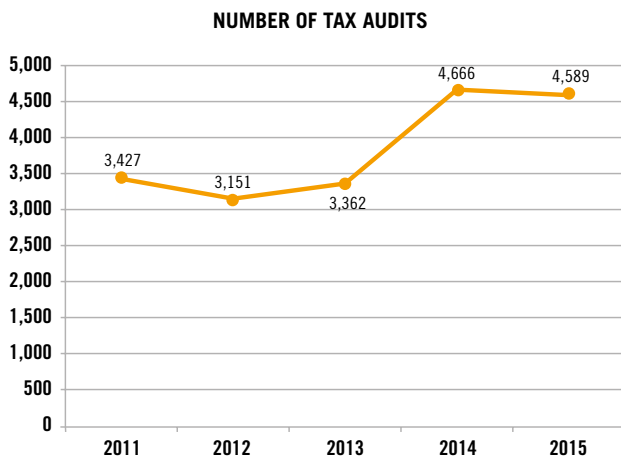
The publication 'Statistics on the supervision of the grey economy 2015' is in line with the previous years' reports by presenting a package of statistics on how different authorities combat the grey economy. The statistics provide details on the results of the tax audits performed by the Finnish Tax Administration, the number of tax offences and penalties for them, the supervision of compliance with the Act on Contractor's Obligations and Liability and control of foreign nationals by the Occupational Safety and Health Administration, the supervision of social insurance operations by the Unemployment Insurance Fund and the Finnish Centre for Pensions, the activities of the Office of Bankruptcy Ombudsman, alcohol supervision and the activities of the crime prevention authorities. The publication also contains statistical compilations on special recovery, bankruptcy trends and payment defaults by companies.

TAX AUDITS

The publication presents the number of tax audits, the amount of taxes debited on the basis of the tax audits and the number of offences reported to the police on the basis of the tax audits. Details on audits on individuals engaged in grey economy operations and the working hours spent on the audits are given separately.

NUMBER OF TAX AUDITS

The statistics give the number of tax audits completed during the year. The number of tax audits means the number of tax audit reports completed during the year in review that are entered in the audit administration's information system as approved. The day of completion refers to the date on which the report is marked as approved.



In addition to the tax audits, the Finnish Tax Administration also carries out site visits and comparative data audits. Site visits are also made by the personnel of the taxation units. In addition to control measures aimed at individual customers, the customers' tax declaration and payment behaviour are also analysed and monitored using risk management methods. All control measures in 2013–2015:

NUMBER OF CONTROL MEASURES

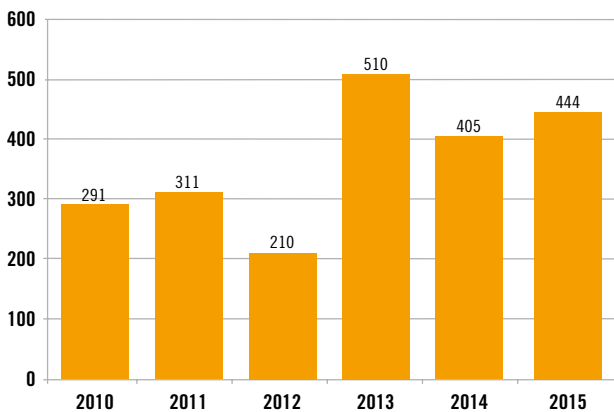
| | 2013 | 2014 | 2015 |
|-------------------------|--------------|--------------|--------------|
| Tax audits | 3,362 | 4,666 | 4,589 |
| Site visits | 491 | 2,021 | 784 |
| Comparative data audits | 444 | 406 | 67 |
| Total | 4,297 | 7,093 | 5,440 |

Introduction of risk-based auditing has allowed the Finnish Tax Administration to increase the number of tax audits. More real-time tax audits are now carried out and in them the focus is on detecting potential tax risks in the audited entities, auditing the operations of the year in question and on providing the taxpayers with advice and guidance. The purpose of the new operating model is to make the audits more comprehensive and to encourage taxpayers to correct errors in taxation without being prompted to do so.

AMOUNT OF DEBITED TAXES

The amounts of the taxes debited on the basis of the audits are given in accordance with the debiting due date. The figures are based on the annual debiting information collected by the Finnish Tax Administration. This means that the debiting during a specific year concerns tax audit reports that have been completed during the same year or the previous year and for this reason they cannot be assigned to any specific reports in the statistics. There is less debiting in the years when a large number of companies are making losses. Debiting is also reduced by earlier years' allowable losses because no taxable business income is generated. In such situations, only tax penalties are imposed. In addition to debited taxes, tax audits also produce other results, such as increases directed at open tax periods, self-adjustments made by the audited entities, prevention of unjustified refunds, steering, and closures of unhealthy business operations.

TAX AUDITS, DEBITED TAXES (EUR MILLION)

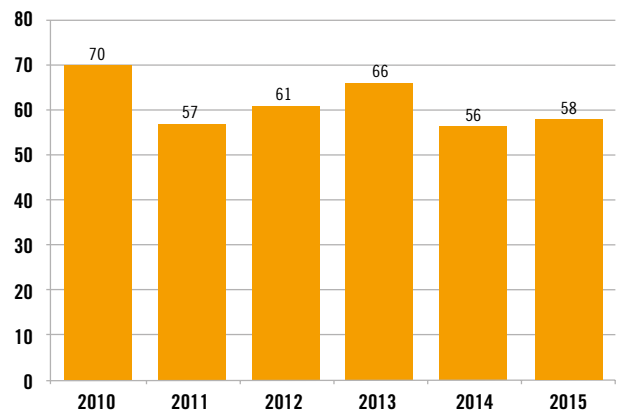


Most of the debiting is on the basis of direct taxation. In 2015, such debiting totalled about EUR 372 million. Debiting based on indirect taxation totalled EUR 41 million and debiting based on withholding taxes EUR 31 million.

AUDITS ON THE GREY ECONOMY

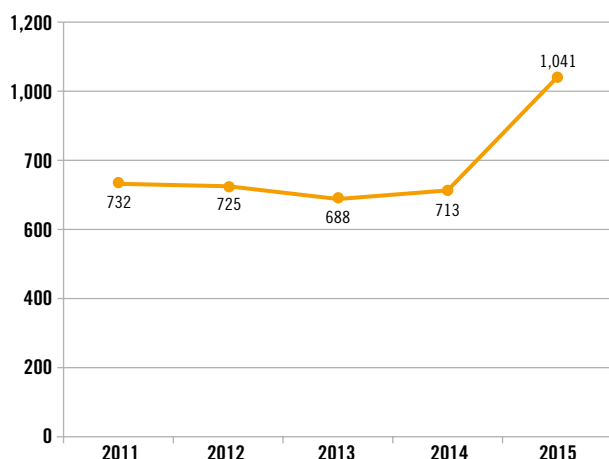
The additional taxes to be debited on the basis of the tax audit reports on the grey economy are also given on an annual basis.

ADDITIONAL TAXES TO BE DEBITED, GREY ECONOMY (EUR MILLION) MILLION



Between 700 and 800 tax audits on the grey economy are performed each year and they have uncovered undeclared sales, undeclared payroll and receipt trade. However, in 2010, the number of audits declined by more than 10 per cent from the previous year and remained at this level for several years. In 2015, audits totalled 1,041, which was a considerably higher figure than in the previous years. There was also a substantial increase in the number of other tax audits in 2014 and 2015.

AUDITS ON THE GREY ECONOMY



Even though the breakdown of the types of grey economy activities uncovered in the audits has remained more or less unchanged over the years the amount of hidden dividend was higher in 2015 than in the years before.

AUDITS ON THE GREY ECONOMY

| | 2013 | 2014 | 2015 |
|---|-----------|-----------|-----------|
| Tax audits | 3,362 | 4,666 | 4,589 |
| Grey economy businesses audited | 688 | 713 | 1,041 |
| Uncovered grey economy (EUR million) | | | |
| - undeclared payroll | 51 | 89 | 75 |
| - undeclared sales (incl. VAT) | 64 | 68 | 59 |
| - undeclared dividends to companies | 7 | 8 | 27 |
| - undeclared dividends to shareholders | 28 | 27 | 47 |
| Additional tax to be debited (EUR million) | | | |
| - withholding tax | 17 | 12 | 12 |
| - value added tax | 20 | 13 | 17 |
| - direct taxes | 29 | 31 | 29 |
| Total | 61 | 66 | 58 |
| Altered receipts in the accounts | | | |
| - number of receipts | 11,486 | 4,052 | 5,930 |
| - value of receipts (EUR million) | 81 | 38 | 34 |

BASIC CONTROL AND RECOVERY

Changes in income taxation and recovery measures are an indication of the effectiveness of the tax control exercised by the Finnish Tax Administration. The controls are also made more effective by tax audits and the criminal processes initiated by the Finnish Tax Administration.

BASIC CONTROL

In basic control, a total of almost EUR 1.7 billion was added to the taxable income of the taxpayers in 2015, while deductions totalled EUR 235 million. Additions totalled more than 100,000 and deductions more than 12,000. The additions mean about EUR 400 million in taxes.

REVENUES COLLECTED THROUGH TAX ACCOUNT STATEMENTS AND RECOVERY MEASURES

Tax account payment reminders were used to collect a total of EUR 1,355 billion (up EUR 28 million year-on-year) and recovery measures were used to collect EUR 1,653 billion (down EUR 84 million year-on-year). Thus, the total amount collected was EUR 3,008 million. The amount collected through payment reminders totalled EUR 335 million (up EUR 2 million year-on-year).

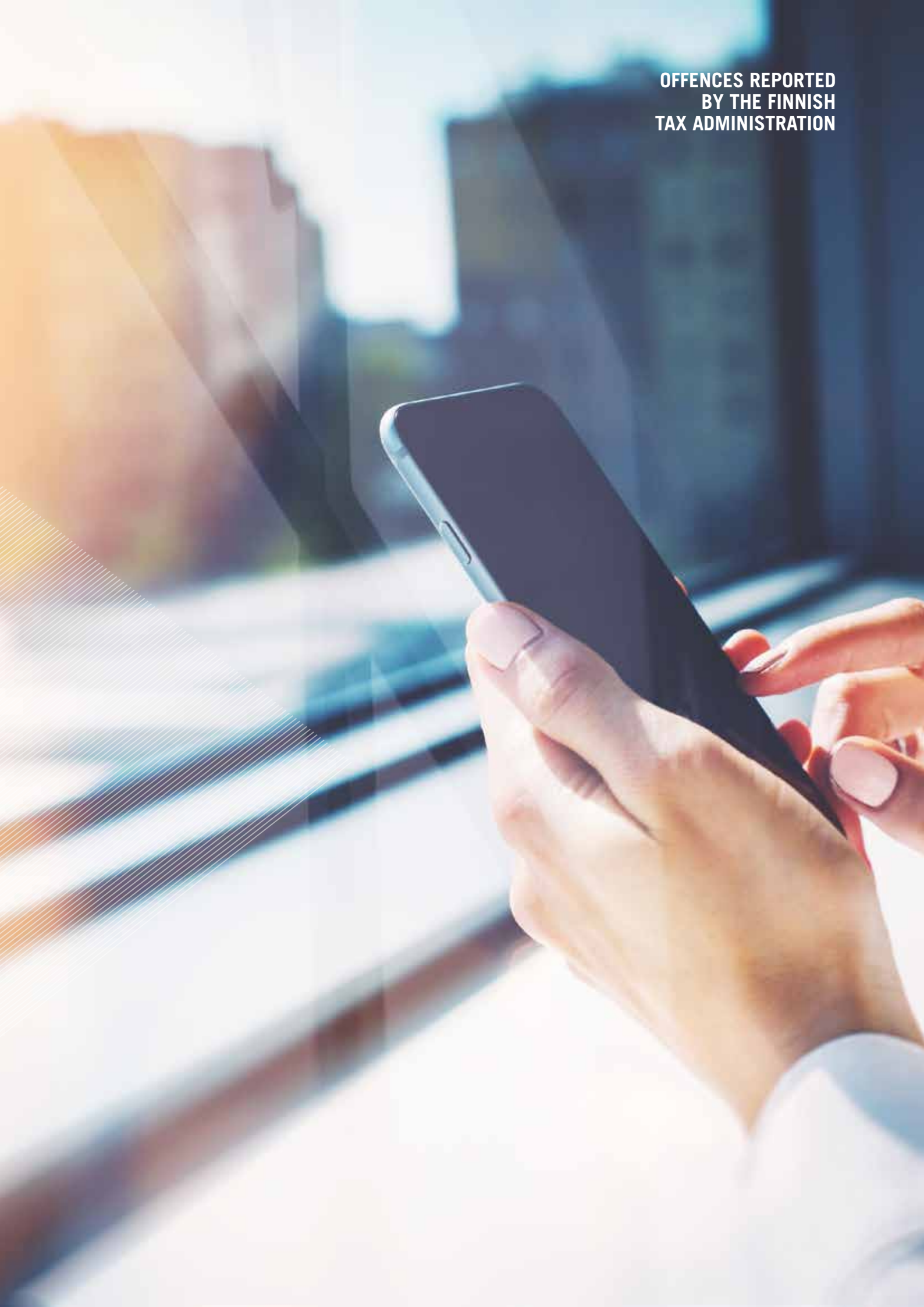
REVENUES COLLECTED THROUGH CUSTOMER-SPECIFIC RECOVERY MEASURES

Revenues collected through customer-specific recovery measures totalled EUR 417 million, representing a decrease of EUR 9 million over the previous year. The revenue share of customer-specific recovery measures was 53.6%. This represents a year-on-year decrease of 0.7 percentage points. Customer-specific recovery measures mean measures that have not been created in the automation process but have been taken by individual officials.

TAX ENFORCEMENT

If a customer does not pay their taxes after receiving a reminder, the Tax Administration will, as a rule, initiate a recovery process. The enforcement administration collected EUR 347 million, representing an increase of EUR 5 million. The Finnish Tax Administration cooperates with the National Administrative Office for Enforcement on a regular basis to ensure the compatibility of the recovery activities of the Finnish Tax Administration with the operations of the enforcement administration. Of the tax arrears, EUR 1.2 billion (28%) were taxes unpaid by individual customers and EUR 2.8 billion (68%) by corporate taxpayers.

**OFFENCES REPORTED
BY THE FINNISH
TAX ADMINISTRATION**

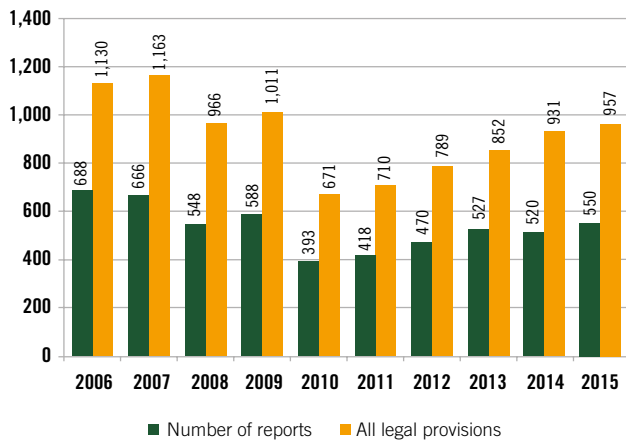


OFFENCES REPORTED BY THE FINNISH TAX ADMINISTRATION¹

The offences reported by the Finnish Tax Administration are entered in the statistics on the basis of the number of the reports and on the basis of the number of the types of crime reported. One report contains an average of two types of crime. The figures include both the reports filed by the Finnish Tax Administration and other offences in which the pre-trial investigation is under way and in which the Finnish Tax Administration has presented claims as an injured party.

The Finnish Tax Administration provides the police with information related to reports on offences, investigations and legal proceedings. The Finnish Tax Administration also reports offences as part of its efforts to combat the grey economy and financial crime. In 2015, the Finnish Tax Administration reported a total of 550 offences, which is 30 reports more than in the previous year.

OFFENCES REPORTED BY THE FINNISH TAX ADMINISTRATION



¹ Source: Information system of the Finnish Tax Administration

There are many reasons for the annual variation in the number of reports on offences. A steeper than usual decline or increase in the number of reports is often a result of changes in legislation or operational practices or economic and other changes at societal level.

The most important factors influencing the number of reports on offences filed by the Finnish Tax Administration are the number of the tax audits and the number and type of the audited cases that reach the pre-trial investigation stage. For example, reporting a case of tax fraud to the police almost always requires a tax audit.

From the perspective of the Finnish Tax Administration, the most important changes in legislation and legal practice (Supreme Court) in recent years have involved the principle of 'ne bis in idem' (double jeopardy). The Act on Tax Surcharges and Customs Duty Surcharges imposed by a Separate Decision (781/2013) entered into force on 1 December 2013. The new act has more or less solved the problem of reconciling administrative sanctions with criminal responsibility in cases involving tax penalties.

A project may involve the filing of an exceptionally large number of reports on offences, which is also one reason why their numbers vary from year to year.

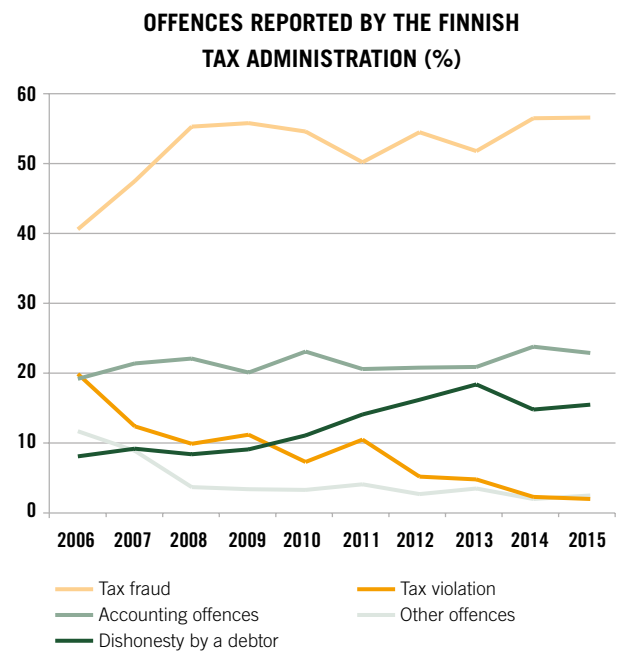
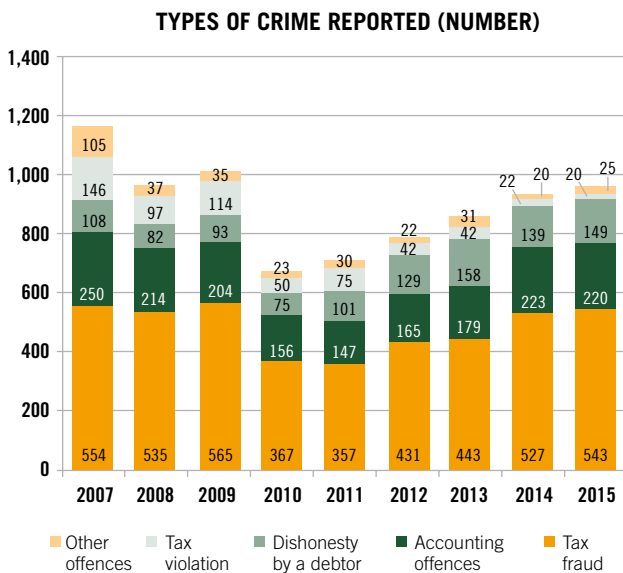
TYPES OF CRIME REPORTED TO THE POLICE

Most of the cases reported to the police by the Finnish Tax Administration involve tax fraud. There has been a steady decline in the number of reports on tax violations. Most of the accounting offences reported to the police by the Finnish Tax Administration involve tax fraud.

Even though there has been some variation in the total number of reports on offences in recent years the number of reports on tax fraud has remained more or less unchanged. Even though there was a decline in the number of cases involving tax fraud in 2010 and 2011, they still account for a high percentage of the offences reported to the police by the Finnish Tax Administration. The decline was followed by a slight increase in the number of reported cases of tax fraud between 2012 and 2015.

In recent years, the number of reported accounting offences has been lower than in the early 2000s even though there has been a slight increase since 2010. Even though the Finnish Tax Administration is not an injured party in accounting offences, it has the right to report a suspected accounting offence to pre-trial investigation authorities. Most of the criminal cases pursued by the Finnish Tax Administration still involve tax fraud, accounting offences and dishonesty by a debtor.

The graph below illustrates the breakdown of different types of crime in the reports filed by the Finnish Tax Administration.

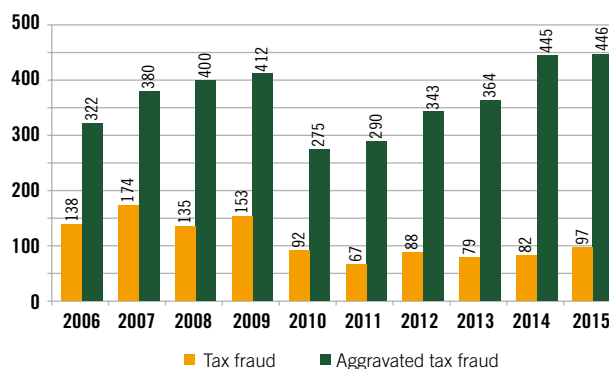


There has been a substantial increase in the percentage of tax fraud since the middle of the 2000s. In fact, most of the types of crime included in the reports filed by the Finnish Tax Administration involve tax fraud. In 2015, they accounted for 56.7 per cent of all types of crime. Tax fraud also often involves accounting offences, which accounted for 23 per cent of all types of crime reported to the police. In 2015, tax fraud and accounting offences accounted for nearly 80 per cent of the offences reported to the police. Together with cases involving dishonesty by a debtor (15.6%), these account for most (more than 95%) of the types of crime reported to the police by the Finnish Tax Administration.

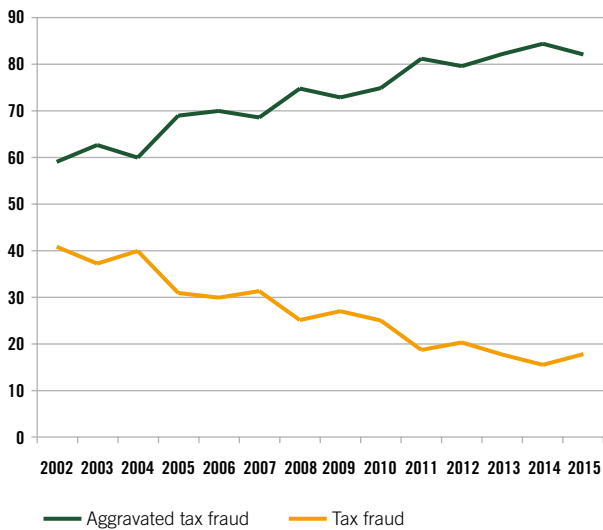
The proportion of aggravated tax fraud of the tax fraud reported to the police by the Finnish Tax Administration is now substantially higher than the proportion of ordinary tax fraud. The trend has continued throughout the 2000s and has become stronger over the years. Of the reports on tax fraud recorded by the Finnish Tax Administration in 2015, more than 82 per cent involved aggravated tax fraud.

One reason why more cases of aggravated tax fraud are reported is because the Finnish Tax Administration is focusing on more serious tax offences in its control activities.

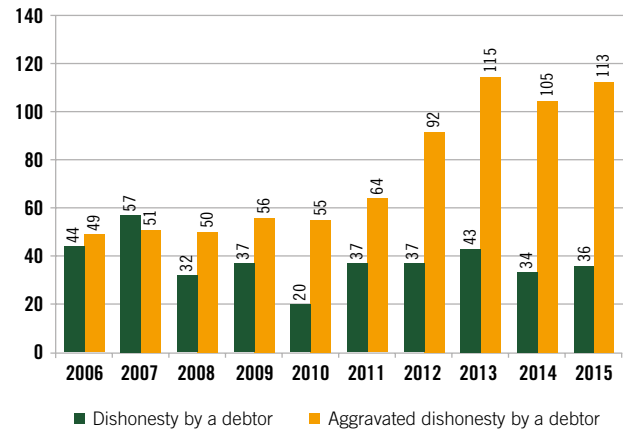
**OFFENCES REPORTED BY THE TAX ADMINISTRATION,
FORMS OF TAX FRAUD**



% SHARES OF TAX FRAUD AND AGGRAVATED TAX FRAUD



TYPES OF DISHONESTY BY A DEBTOR

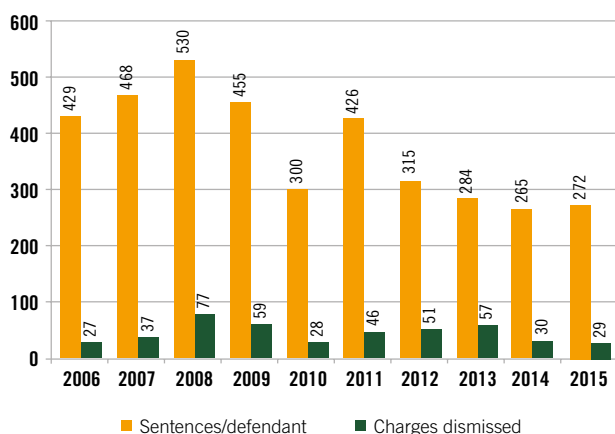


Compared with the reports on cases involving dishonesty by a debtor filed by the Finnish Tax Administration in previous years, there has been a substantial increase in the total numbers, especially in the number of aggravated cases. During the last few years, the proportion of aggravated offences has been higher than at any other time during the period covered by the graph (the peak was recorded in 2013). The offences involving the dishonesty by a debtor recorded by the Finnish Tax Administration often have the Finnish Tax Administration as the injured party, while the offence itself is reported by another party, such as an estate administrator. There has been an increase in the offences involving the dishonesty by a debtor reported by estate administrators since 2013. Under a legislative amendment introduced that year, estate administrators are obliged to report such offences to the police.

PENALTIES

The graph below shows the number of legally binding court decisions (in cases which have been reported to the police by the Finnish Tax Administration or in which the Finnish Tax Administration has been an injured party) by defendant each year. There is a correlation between the number of cases reported to the police and the number of court decisions issued a few years later. There was a substantial increase in the number of court decisions between 2004 and 2008, which is at least partially explained by the fact that a higher number of cases had been reported to the police in 2003 and 2004. Especially the number of decisions issued by the Courts of Appeal increased in 2008. In 2010, there was a substantial decline in the figures. In 2011, the number of decisions increased, only to decline again in 2012 and 2013. The figures for 2014 and 2015 were lower than in any other year of the ten-year monitoring period.

PENALTIES RESULTING FROM OFFENCES REPORTED BY THE FINNISH TAX ADMINISTRATION

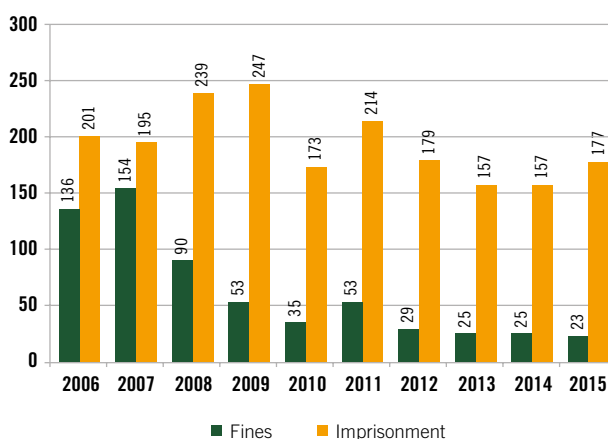


The graph below shows the types of penalty under criminal law in cases which the Finnish Tax Administration has reported to the police or in which the Finnish Tax Administration has been the injured party and in which a legally binding decision has been issued. Court decisions in which an appeal is pending are not shown.

A fine is the most common form of punishment in tax violations and a conditional prison sentence the most common punishment in tax fraud. There was a substantial decrease in fines between 2008 and 2015, which was in line with a similar trend in reported cases of tax violations after 2004. In 2015, fines accounted for a lower proportion of the sentences than in any other year of the monitoring period. The number of prison sentences increased until 2009 after which there has also been a slow decline in this form of punishment.

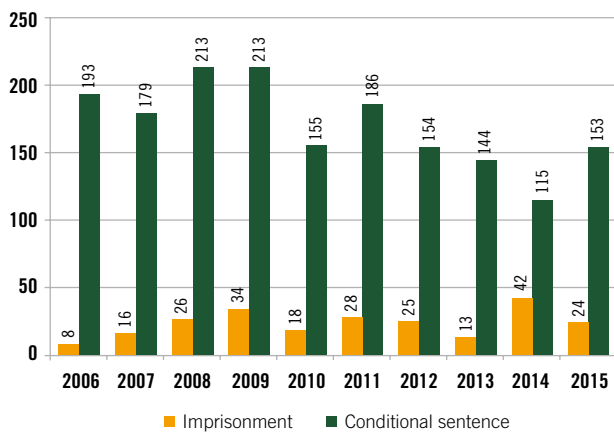
In 2015, prison sentences accounted for slightly more than 88.5 per cent and fines for 11.5 per cent of all sentences resulting from the cases that the Finnish Tax Administration had reported to the police.

PENALTIES RESULTING FROM OFFENCES REPORTED BY THE FINNISH TAX ADMINISTRATION



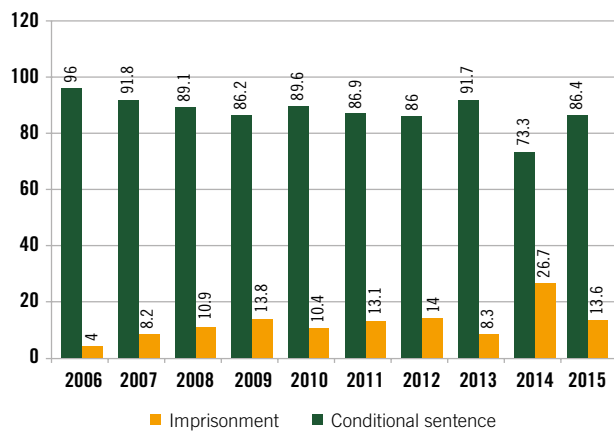
The number of unconditional prison sentences has always been relatively small. However, there was a clear increase in the number of unconditional sentences in 2014 and the year marked the peak in the application of this form of punishment during the monitoring period. The same year, the number of conditional sentences was lower than in any other year of the monitoring period.

PENALTIES RESULTING FROM OFFENCES REPORTED BY THE FINNISH TAX ADMINISTRATION



Unconditional sentences have also accounted for only a small proportion of all prison sentences.

IMPRISONMENT (%)



// STATISTICS OF
THE SUPERVISORY
AUTHORITIES



// STATISTICS OF THE SUPERVISORY AUTHORITIES

THE OFFICE OF BANKRUPTCY OMBUDSMAN

Pekka Pulkamo, Office of Bankruptcy Ombudsman

The Office of Bankruptcy Ombudsman is an independent special authority operating as part of the Ministry of Justice. The Bankruptcy Ombudsman is responsible for ensuring that bankruptcy and restructuring proceedings are carried out in accordance with the targets set for them and in an efficient, economic and speedy manner.

In 2015, a total of 1,933 debtors were declared bankrupt, which was 11.4 per cent fewer than in the year before. At the moment, a total of 3,415 bankruptcy proceedings are pending under the supervision of the Office of Bankruptcy Ombudsman and of them 465 are continuing under public receivership with state funds.

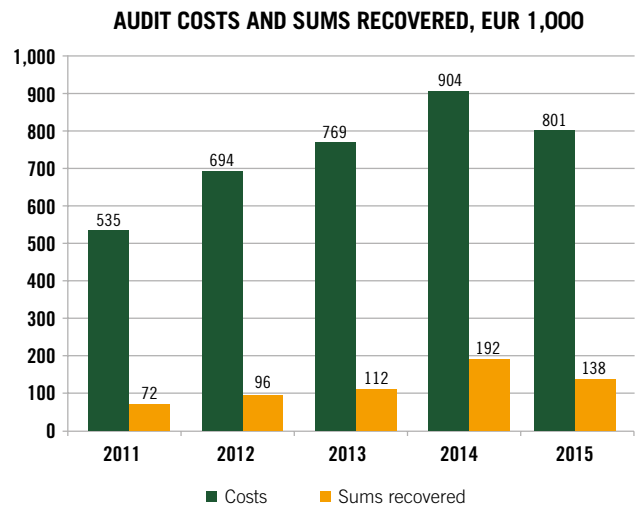
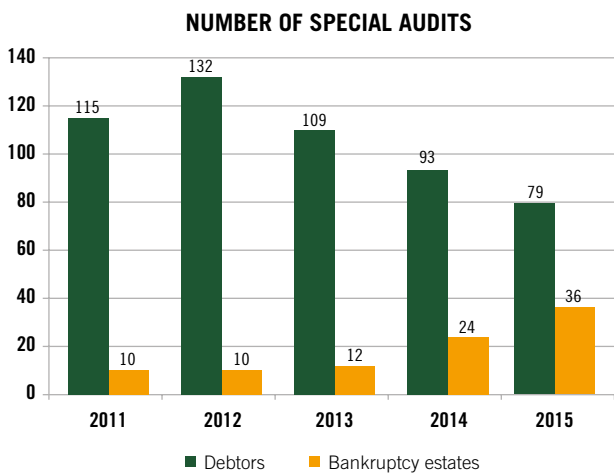
Combating economic crime and the grey economy is an important part of the work of the Bankruptcy Ombudsman. Auditing of the debtor's accounts and operations and transferring the cases to public receivership have proved effective ways of investigating economic malpractices and other irregularities in connection with bankruptcies. The Bankruptcy Ombudsman is also closely cooperating with other authorities involved in the combating of economic crime and the grey economy.

SPECIAL AUDITS

The Bankruptcy Ombudsman may order the carrying out of a special audit on the debtor's operations. The audit must be performed by an authorised public accountant. The purpose of the special audits ordered by the Bankruptcy Ombudsman is to determine whether there have been irregularities in the operations of the debtors and whether there are any grounds for recovery action.

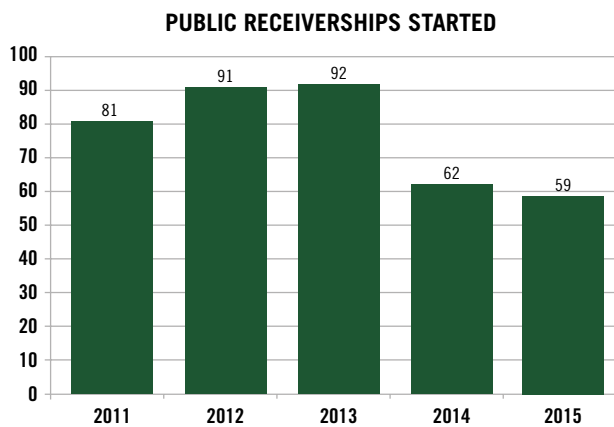
The costs of the audits are paid from state funds. The costs are recovered from the bankruptcy estate if it has been possible to accumulate the assets of the estate on the basis of the audit.

As special audits are carried out in insolvent bankruptcy estates, recovery action is only possible if the bankruptcy estate manages to accumulate its funds as a result of the legal processes based on the audit findings. Usually, assets are accumulated through recovery action or as crime-based damages. The chart below shows the trends in audit costs and the sums recovered between 2010 and 2014.



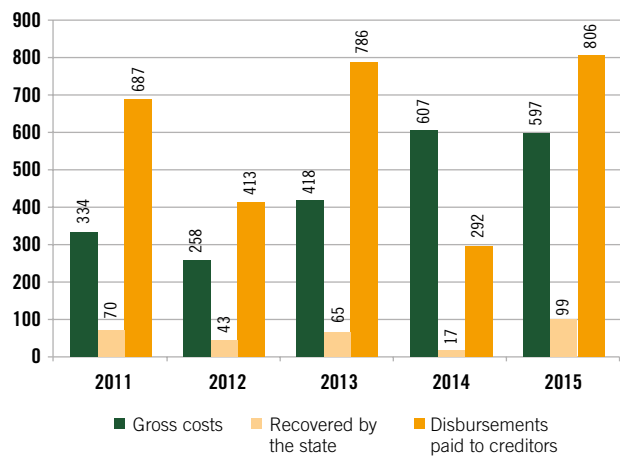
PUBLIC RECEIVERSHIP

At the request of the Bankruptcy Ombudsman, a court may decide that the bankruptcy is to continue under public receivership if this is to be deemed justified on account of the insufficient means of the bankruptcy estate or the need of the debtor or the estate to be scrutinised or for some other special reason. In practice, a bankruptcy is usually transferred to public receivership if there are reasons to suspect that the debtor concerned is guilty of serious financial offences.



Public receivership can be considered an economically sound procedure from the perspective of society at large because the costs recovered by the state through public receiverships and the disbursements paid to the creditors exceed the public receivership costs paid from state funds.

COSTS AND REVENUE OF PUBLIC RECEIVERSHIP, EUR 1,000



REGIONAL STATE ADMINISTRATIVE AGENCIES – CONTRACTOR'S OBLIGATIONS AND LIABILITY

Mikko Vanninen, Regional State Administrative Agency for Southern Finland, occupational safety and health area of responsibility

The task of the contractor's liability team of the regional state administrative agencies is to supervise compliance with the Act on the Contractor's Obligations and Liability when Work is Contracted Out (1233/2006) in all parts of Finland. There are a total of 31 inspectors in the contractor's liability team. The aim of the supervision of compliance with the act is to combat the negative effects on companies caused by the grey economy and unhealthy competition. In 2015, inspections were carried out in the construction sector, industries, logistics, service sector and the primary production.

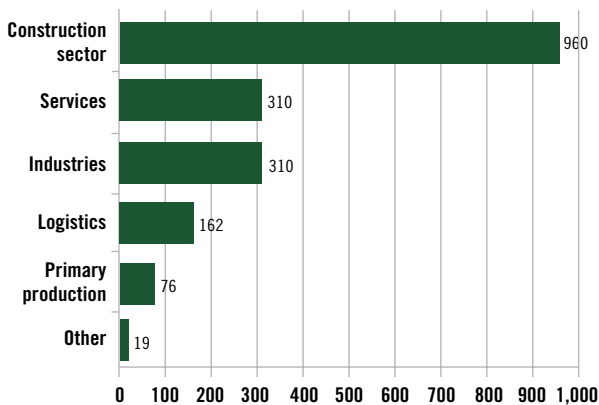
Inspections aimed at ensuring compliance with the Act on the Contractor's Obligation and Liability were carried out in companies and public sector actors that use subcontracting and temporary agency workers.

An important aim of the inspections is to make companies more aware of the purpose and content of the Act on the Contractor's Obligation and Liability and in this manner strengthen an operating culture in which cooperation is only pursued with contractual partners that are known to manage their statutory obligations in a proper manner. The agreements on the employment of subcontracted labour and temporary agency workers and compliance with the Act on the Contractor's Obligation and Liability are reviewed during the inspections.

THE TOTAL NUMBER OF INSPECTIONS BY SECTOR

A total of 1,846 inspections were carried out under the Act on the Contractor's Obligations and Liability in 2015. By far the largest number of inspections were carried out in the construction sector, which accounted for about 52 per cent of all inspections.

INSPECTIONS BY SECTOR 2015



The contractor's liability team supervises compliance with the Act on the Contractor's Obligations and Liability in all parts of Finland. In order to ensure effective supervision and equal treatment of the inspected entities it is important to ensure that inspections are carried out in the areas of all five regional state administrative agencies. The largest number of inspections (1,069) was carried out in the area coming under the Regional State Administrative Agency for Southern Finland. The number of inspections carried out in the areas of the remaining four regional state administrative agencies² varied between 111 and 277.

DECISIONS ON NEGLIGENCE FEES

A total of 160 letters of hearings on the failure to comply with the checking obligation laid down in the Act on the Contractor's Obligations and Liability had been sent by the completion of the report. There will be changes in the numbers during the early months of 2016 because many of the processes are still pending. A total of 8.7 per cent of all inspections carried out in 2015 resulted in the sending of a letter of hearings.

A total of 52 contractors had been issued with decisions on negligence fees by the completion of the report. The fees totalled EUR 255,236. Most of the cases of negligence involved obligations concerning tax payments and pension insurance. There is an increasing number of cases where contractors have not properly checked the pension and accident insurance of their foreign contractual partners. A large number of processes are still pending, which means that there will be changes in the numbers during the early months of 2016.

SPECIFIC CONTROL FINDINGS AND COOPERATION BETWEEN THE AUTHORITIES

There has been a marked increase in the compliance with the checking obligation among companies of all sizes during the past few years, especially in the construction sector and industries. This has also resulted in a decrease in the number of new penalty processes, compared with the previous years. Successful long-term control, especially in the construction sector, has been one reason behind the better compliance with the checking obligation.

Another important factor is the active involvement of the stakeholders and in many cases contractual issues also play a role. As a result, the tilaajavastuu.fi service is also more widely used in sectors outside the construction industry.

However, the inspectors have noticed that there are still sectors where awareness of the Act on the Contractor's Obligation and Liability is weak and that there is a widely held view that the act only concerns the construction business. In the future, there will be more control of contractors' obligations and liabilities in sectors with weak awareness of the act. Moreover, in the construction industry, the control will increasingly focus on subcontracting chains at building sites.

Under the Act on the Contractor's Obligation and Liability a contractor must keep the information provided by its contracting partner and it was noticed during the inspections that there are companies that fail to comply with this obligation. Active efforts will be taken in 2016 to change the situation, both as part of the control activities and in the dissemination of information.

In 2015, the inspectors supervising compliance with contractors' obligations and liabilities cooperated with the following authorities: Finnish Tax Administration, Finnish Centre for Pensions, Grey Economy Information Unit, the police, Finnish Border Guard, enforcement offices, Finnish Customs, Ministry of Social Affairs and Health, Ministry of Employment and the Economy and the alcohol inspectors and occupational safety and health divisions of Regional State Administrative Agencies. There were a total of 158 joint inspections with other authorities during the year, especially as part of the construction sector project. The year 2015 also saw more extensive cooperation with the Finnish Customs and the Finnish Border Guard, especially in the logistics project, and with the alcohol inspectors of Regional State Administrative Agencies in the service sector project.

² Western and Inland Finland (277), Eastern Finland (226), Southwestern Finland (111) and Northern Finland (128)

REGIONAL STATE ADMINISTRATIVE AGENCIES – OCCUPATIONAL SAFETY AND HEALTH, FOREIGN EMPLOYEES

Riku Rajamäki, occupational safety and health division of the Regional State Administrative Agency for Southern Finland

MAIN CONTROL FINDINGS IN 2015

In the occupational safety and health area of responsibility of the Regional State Administrative Agency for Southern Finland, the supervision of the employment of foreign nationals was carried out on the basis of tips, in teams and as part of projects. A total of 554 inspections concerning the employment of foreign nationals were carried out. Even though tip-based supervision covered a large number of sectors, the largest number of tips was received from the construction sector, cleaning sector and the restaurant sector.

In 2015, supervision of the employment of foreign nationals also involved joint inspections with the Finnish Tax Administration, the police, the Finnish Centre for Pensions and alcohol inspectors. Joint inspections have proved an effective tool in the supervision of problematic employers and large entities.

Providing the contracting parties with details of the findings of inspections carried out in the subcontracting companies has proved an effective tool in the supervision of the employment of foreign nationals. In this procedure, Finnish principal contractors and clients receive concrete information on the negligence of the operators in the subcontracting chain.

CONSTRUCTION SECTOR

A total of 99 inspections were carried out in construction companies in 2015. In these inspections, the focus was on ensuring that the minimum employment terms of foreign workforce are observed. There were also a total of 147 construction site inspections the purpose of which was to ensure that the provisions on the employment of foreign workforce are complied with. Inspectors focusing on occupational safety and health in the construction sector also carried out hundreds of site inspections during which provisions on the employment of foreign workforce have been reviewed.

In the last few years, focus in the construction site control has been on the use of foreign employees and this approach has also brought results. Priority has been on sites with a large

number of foreign workforce. More than 40 per cent of the workers met during the site inspections in 2015 were from outside Finland.

The obligation concerning the use of personal IDs is observed at most construction sites. For example, in the construction team area coming under the Regional State Administrative Agency for Southern Finland, the identity card index was 91.7 per cent in 2015. This means that fewer than one in ten of all workers met during site inspections were without the obligatory personal ID or had a card that did not meet the requirements. At the same time, however, there were a large number of inadequacies concerning the obligation to keep a list of all workers of the construction site, which entered into force in 2014. For example, during the inspections at construction sites that were jointly carried out with the Helsinki Police Department in autumn 2015, it was noticed that there were inadequacies concerning the listing obligation at nearly 40 per cent of all sites. At many construction sites, the lists do not contain any information of the Finnish representative of the company posting workers to Finland or the representative's contact details.

The most serious problems encountered in inspections in construction sector companies remains the absence of the working hours register, which is required under the Working Hours Act. In such cases it is very difficult to determine the working hours of foreign employees and the basis of the wages paid to them.

Even though in most cases, the wages paid to foreign construction workers meet the minimum requirements laid out in the sector's collective agreement, the wages are not necessarily in accordance with the general pay level in the sector. Moreover, foreign workers do not always receive overtime pay or compensation for Sunday work and many of them do not receive any holiday compensation. Most of the problems occur in small construction companies owned by foreigners and companies posting workers to Finland.

POSTED EMPLOYEES

When the inspectors visited a site where they found posted foreign workers, they also checked that the employer had fulfilled its obligation to select a representative. There were a total of 31 inspections in companies posting workers to Finland in which the selection of the representative was checked. A

total of 13 of these inspections were carried out as part of the construction sector project. The inspectors found three employees who did not have the right to work in Finland.

Most of the posted employees work at construction sites or for temporary work agencies based outside Finland. According to the inspection findings, the employment terms of the posted workers differ significantly from the employment terms of Finnish employees doing similar work. There were only a very small number of companies where the pay of the posted employees was in accordance with collective agreements. Moreover, no consideration is given to the competence classification of the collective agreements in the setting of the posted workers' pay levels. In practice, the lowest pay categories of the collective agreements have also become the most common pay categories. Posted foreign workers rarely receive any per diem or accommodation allowances and travel expenses are only partially reimbursed.

The inspectors also found major irregularities in the payment of overtime and Sunday work compensations to posted employees. Working hours registers and the records of annual holidays were inadequate in all companies employing posted workers. Foreign companies often tell the inspectors that they use the working hours adjustment system. However, they are unable to present any documents concerning the system and there are no entries of its use in the working hours register.

RESTAURANTS

In 2015, a total of 231 inspections based on tips and inspection requests were carried out in the restaurant sector. The number of inspections was more than 100 higher than in 2014. Moreover, a total of 86 inspections concerning the employment of foreign nationals in the restaurant sector were carried out as part of the project of the hotel and catering team.

In both projects the focus was on ethnic restaurants, pizzerias and kebab outlets and they both produced similar results. There were also inspections at restaurants serving alcoholic beverages that employ foreign workers. The irregularities were similar to those uncovered in the previous years: many employers had failed to pay supplements and compensations and the basic pay was not in accordance with the minimum level laid out in the collective agreements for the tourism, restaurant and leisure services. According to the inspections

carried out by the hotel and catering team, the pay was in accordance with the generally binding collective agreement in only 40 per cent of the inspected restaurants. Among the inspected restaurants there were those where follow-up inspections had already been made. In other words, many of the employers had already been provided guidance in pay-related matters.

Many of the restaurants were also unable to present up-to-date work schedules. A total of 73 per cent of all inspected restaurants had inadequate work schedules or did not have any work schedules at all. It should be noted, however, that this total also includes restaurants where follow-up inspections have been made. The number of inadequacies is even higher during the first inspections, which are unannounced. The absence of work schedules allows the restaurants to use undeclared employees and makes it more difficult to uncover any pay-related irregularities. Many pizzerias and kebab outlets have part-time employees that receive a monthly salary as a lump sum in violation of the terms and conditions of the collective agreement. At the same time there is no working hours register.

Most of the foreign employees in the restaurant sector are still from non-EU countries. Even though there are also asylum seekers working in the sector, the rapid growth in their numbers last autumn was not yet reflected in the results of the inspections carried out in 2015. Despite a large number of inspections by different authorities, the information giving the grounds of the foreign nationals' right to work required under the Aliens Act was available in only one quarter of the inspected restaurants.

Foreigners that did not have the right to work in Finland or who were otherwise working in violation of the permit conditions were found in about ten restaurant inspections in 2015. The most common violation involved a situation where a person was working in the wrong professional sector. A particularly large number of people holding a cook's permit were doing waiter's work. For the first time, inspectors also found illegal restaurant workers using residence permits granted to citizens of other EU countries.

The findings show that the inspections have been made at sites where problems occur and that particularly in this sec-

tor there is a need for supervision and cooperation between the authorities.

PROPERTY SERVICES (CLEANING SECTOR)

There are numerous irregularities concerning compliance with the obligations on minimum employment terms and the employment of foreign nationals in property services. Most of the problems occur in small cleaning services companies that are not members of trade associations. There were a total of 131 inspections in the property services sector in 2015. This total includes the inspections carried out as part of the tip-based control project of the team carrying out inspections concerning the employment of foreign nationals (Ulti-vtv, 30 inspections) and the inspections carried out as part of the Ultsi cleaning sector project of the property services team (Ultsi, 101 inspections). There were 37 inspections more than in 2014. The statistics for 2015 are based on the figures produced as part of the property services team's Ultsi project.

The largest number of irregularities were uncovered in the area of the working hours register. The most serious irregularities in working hours registers concerned the itemisation of overtime work and Sunday work. In the sector as a whole, less than half of all inspected companies are observing minimum statutory employment terms.

As in 2014, inspectors uncovered clear cases of underpayment in the property services sector (situations where basic pay was below the minimum level laid out in the generally binding collective agreement). There were also cases where employees received trainee's pay for the whole duration of their employment relationship.

Checking of the right to work (95%) and keeping of the information (50%) in connection with the employment of foreign workforce have remained at previous years' levels. It seems that foreign subcontractors are still fairly rare as contractual partners in the sector.

TRANSPORT SECTOR

In 2015, most of the tip-based inspections in the transport sector were carried out as part of the nationwide project to combat the grey economy in the transport sector (KUHA) and, particularly in the Helsinki region, also as part of the Ulti-vtv project. A total of 192 inspections were carried out as part of

the KUHA project and 13 as part of the Ulti-vtv project.

The most serious problems in transport companies concerned compliance with the Working Hours Act, driving times and rest periods. Only 54 per cent of the inspected companies were in compliance with the Working Hours Act and only 63 per cent of the inspected companies were keeping working hours registers as required in the Working Hours Act. There were companies where only the working hours registers covering working hours accumulated in Finland were in compliance with the law whereas the working hours accumulated outside Finland were not properly registered. The inspectors found a large number of violations concerning driving times and rest periods and the use of tachographs. The violations also involved non-Finnish drivers. Only 40 per cent of the inspected companies were in full compliance with driving times and rest periods, while in 54 per cent of the inspected companies there were violations concerning the use of tachographs. Violations of driving times and rest periods were reported to the police in four cases.

A total of 15 per cent of the inspected companies had problems concerning compliance with the provisions on the employment of foreign nationals. The most serious irregularities involved the keeping of the information on the right to work and the provisions on posted employees. Better than average compliance with the provisions on foreign workers in the transport sector can probably be explained by clear processes concerning driver cards and work permits and continuous cross-border traffic control.

At the same time, a total of 89 per cent of the inspected transport companies were in compliance with the minimum statutory employment terms. In 2014, the figure had been 77 per cent. According to the inspection findings, most of the problems involve companies operating in South Karelia and Kymenlaakso where non-Finnish temporary agency workers and posted employees are used. Many foreign drivers receive the basic pay that is in accordance with the collective agreement but are not provided with any supplements or other similar compensations.

According to the inspection findings, many of the non-Finnish drivers posted to Finland by Russian companies are without accident insurance cover during their work in Finland.



**UNEMPLOYMENT INSURANCE FUND
– SUPERVISION OF THE PAYMENT
OF INSURANCE CONTRIBUTIONS**

UNEMPLOYMENT INSURANCE FUND – SUPERVISION OF THE PAYMENT OF INSURANCE CONTRIBUTIONS

*Matti Romakkaniemi and Jenna Lempiäinen,
Unemployment Insurance Fund*

The task of the Unemployment Insurance Fund is to ensure that the employers fulfil their obligations concerning unemployment insurance contributions. The supervision of the payment of unemployment insurance contributions covers all employers and it is mainly on the basis of comparison of unemployment insurance information and the payroll data received from the Finnish Tax Administration. Employers are also supervised on the basis of the information received through cooperation between the authorities.

In previous years, the Unemployment Insurance Fund supervised the payment of unemployment insurance contributions in cooperation with individual accident insurance institutions and the Federation of Accident Insurance Institutions. This is because until 2012, the collection of unemployment insurance contributions was the responsibility of accident insurance institutions. Since 2013, the Unemployment Insurance Fund has collected the contributions directly from the employers.

The supervision covering the year 2012 and the years before that was concluded in cooperation with the accident insurance institutions at the start of 2015. The supervision of the payment of the unemployment insurance contributions collected by Unemployment Insurance Fund in 2013 and after than began on 16 November 2015 when the information system intended for supervising the payments became operational.

The manual supervision of an employer starts after automatic comparison of payroll data. The person responsible for processing the information carries out a manual review on the basis of the payroll sums submitted by the employer to the Unemployment Insurance Fund and the information received from the Finnish Tax Administration. Most of the errors discovered in the supervision are the result of human errors by the employers. A common error is that an entrepreneur has erroneously declared his or her own salary to the Finnish Tax Administration as an employee's salary or an entrepreneur's salary has been declared as part-owner's salary.

COOPERATION BETWEEN THE AUTHORITIES IN SUPERVISION

The supervision unit of the Unemployment Insurance Fund cooperates in supervision matters with such bodies as the Finnish Centre for Pensions and the Workers' Compensation Center. In autumn 2015, the Unemployment Insurance Fund joined the VTPR interface of the Grey Economy Information Unit. As a result the fund will get quicker access to detailed information about the cases selected for supervision.

SUPERVISION OF THE UNEMPLOYMENT INSURANCE CONTRIBUTION OBLIGATION IN 2015

At the end of 2015, as the Unemployment Insurance Fund was making its own supervisory function operational it focused on the supervision of 2013 and 2014 insurance data. A total of 440 employers were selected for supervision and supervision has been carried in 196 cases. As regards the employers selected for supervision, supervision has been completed in 164 cases and in 32 cases the supervision process is still pending. Financial penalties were imposed in 94 cases. It was determined during 2015 that EUR 642,000 in unemployment insurance contributions are outstanding for 2015 and that the refunds for the year total about EUR 31,000.

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|---------|-------------------|
| Employers selected for supervision | 955 | 883 | 632 | 481 | 383 | 196 | 4,149 |
| Financial penalty determined | 607 | 550 | 400 | 322 | 266 | 94 | 2,617 |
| Supervision in progress | 0 | 0 | 0 | 5 | 6 | 32 | 43 |
| Contributions ordered to be paid, EUR | 6,409,103 | 3,815,542 | 1,836,327 | 3,199,750 | 3,196,158 | 642,000 | 24,599,149 |
| Refunds ordered to be paid, EUR | -279,072 | -467,346 | -364,270 | -246,076 | -901,971 | -31,000 | -2,389,832 |
| Net effect of supervision | 6,130,031 | 3,348,196 | 1,472,057 | 2,953,673 | 2,294,186 | 611,002 | 22,209,317 |

FINNISH CENTRE FOR PENSIONS – SUPERVISION OF EARNINGS-RELATED PENSIONS

Tiia Lahti, Finnish Centre for Pensions

One of the statutory tasks of the Finnish Centre for Pensions is to supervise compliance with the insurance obligation of employers and entrepreneurs laid down in the earnings-related pension legislation. The aim of the supervision is to ensure that employees and entrepreneurs have the pension coverage that they are entitled to and that pension insurance companies can collect the pension contributions in the correct amounts.

The Finnish Centre for Pensions supervises the correctness of the earnings-related pension insurance obligation on the basis of extensive comparisons based on tax and insurance data and with the help of a variety of external supervision activities, such as cooperation between authorities. Supervision may also be initiated on the basis of requests submitted by earnings-related pension companies and as a result of the pension extracts sent to employees.

MASS SUPERVISION

The Finnish Centre for Pensions supervises employers by means of mass supervision in which the employer data provided by the Finnish Tax Administration is compared with earnings-related pension information. Each year the data on about 160,000 employers is used as the domain.

In mass supervision, the payroll data based on the periodic tax returns submitted by employers are compared with the earnings data supplied by employers to pension insurance companies. This supervisory system is almost on a real-time basis. In the supervision based on the application, the priority can be on labour intensive risk sectors.

In retroactive mass supervision, the payroll data on the annual information returns submitted by employers to the Finnish Tax Administration are compared with the earnings data submitted to the pension insurance companies. This system of supervision covers all private sector employers in all sectors.

Any insurance irregularities can be fairly comprehensively corrected by means of mass supervision and the employees' pensions can be properly managed to the extent that the sal-

aries are taxed. Most employers manage their earnings-related pension obligations in accordance with the law. There are, however, irregularities and they are uncovered by such means as controls based on extensive comparison of tax and registry data. The Finnish Tax Administration provides the Finnish Centre for Pensions with the tax data of about 173,000 employers each year.

SUPERVISION AND COOPERATION BETWEEN THE AUTHORITIES

The Finnish Centre for Pensions cooperates closely with different authorities. The cooperation has helped the Finnish Centre for Pensions to obtain control data from different authorities that it has used in its supervisory activities. For example, the Finnish Centre for Pensions has ordered 2,182 obligation compliance reports from the Grey Economy Information Unit to support its supervisory task. The reports prepared by the Grey Economy Information Unit have also been used in the prioritisation of supervision. During 2015, the Finnish Centre for Pensions also provided the unit with information about the employers selected for supervision for the report on outstanding earnings-related pension contributions.

In cooperation with the regional state administrative agencies, occupational safety and health authorities and the Finnish Tax Administration, the Finnish Centre for Pensions carried out control visits at construction sites during national joint inspection weeks. During those weeks, the inspectors of the Finnish Centre for Pensions visited a total of 40 construction sites and interviewed about 450 workers.

No major irregularities in pension insurance arrangements were uncovered during these inspections. For the Finnish Centre for Pensions, one aim of the joint inspections has been to make the earnings-related pension system more widely known and to make supervision more visible. Joint inspections involving several authorities also make the supervision more effective.

In the investigation of cases involving earnings-related pension fraud, the Finnish Centre for Pensions cooperates with the police and pension insurance companies. A criminal investigation is often triggered by a tax audit in which undeclared payroll has been uncovered. In 2015, the Finnish Centre for Pensions investigated about 50 cases of earnings-related pension fraud, which means that the number of cases was slightly

higher than in 2014. The Finnish Centre for Pensions has increased awareness of earnings-related pension fraud by training for the police and other actors.

SUPERVISION RESULTS

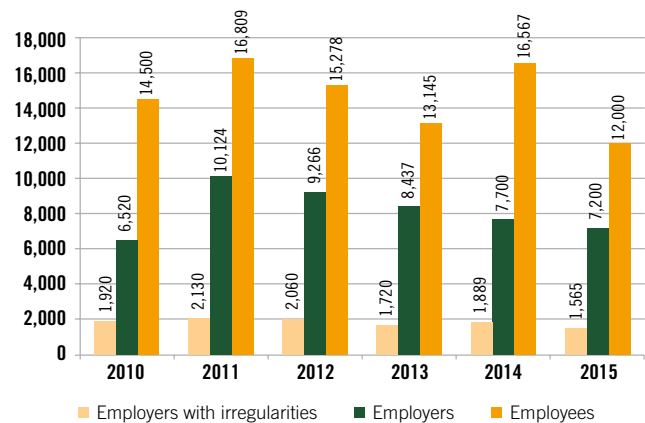
It seems that the number of employers, inadequately insured employees and the amounts of uninsured wages and salaries examined as part of the supervision of compliance with earnings-related pension obligations are at fairly constant levels even though the totals for inadequate insurance were slightly lower in 2015 than in 2014. The decline is mostly the result of more up-to-date supervision and the fact that employers have been provided with instructions and guidelines. A total of about EUR 93 million in uninsured wages and salaries were uncovered in the supervision of employers by the Finnish Centre for Pensions in 2015.

In 2015, the correctness of the earnings-related pension insurance arrangements of about 7,200 employers was examined in more detail as part of the supervision. The earnings-related pension insurance irregularities concerned about 1,570 employers and about 12,000 employees.

A total of 407 employers took earnings-related pension insurance for their employees, either at the request of the Finnish Centre for Pensions or because they were ordered to accept an insurance policy. In the case of other employers, the irregularities involved the rectification of the deficiencies in payroll data submitted to pension insurance companies.

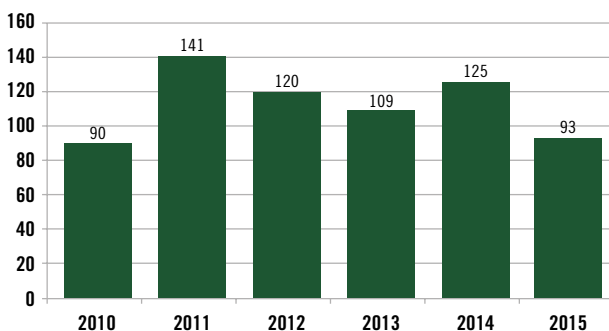
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EXAMINED EMPLOYERS AND UNINSURED EMPLOYEES



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UNINSURED WAGES AND SALARIES, EUR MILLION



VALVIRA - SUPERVISION OF THE SERVING AND RETAIL TRADE OF ALCOHOLIC BEVERAGES

Aleksi Halme, Valvira

Regional state administrative agencies are responsible for supervising the serving and retail trade of alcoholic beverages. The National Supervisory Authority for Welfare and Health (Valvira) steers the activities at national level. The supervision carried out by the regional state administrative agencies can be divided into ex ante and ex post supervision. Ex ante supervision takes place when the operator applies for a licence, while ex post control is directed at existing licence holders. Practical tools applied in the supervision are tax debt data of the licence holders, notifications submitted by licence holders, margin reports and the obligation compliance reports provided by the Grey Economy Information Unit.

SUPERVISED ENTITIES IN THE SERVING AND RETAIL TRADE OF ALCOHOLIC BEVERAGES

At the end of 2015, there were a total of 13,937 entities where the serving and retail trade of alcoholic beverages was controlled (8,220 in serving and 5,717 in retail trade). There was a slight decline in the number of supervised entities compared with 2014, which was in accordance with a longer-term trend. During the year, a total of 4,775 inspections were carried out in different parts of Finland (3,777 in serving and 998 in retail trade) (34%). The number of control inspections was slightly lower than in the previous year.

SERVING OF ALCOHOLIC BEVERAGES

In 2015, regional state administrative agencies withdrew a total of 35 serving licences on a permanent basis and 66 licences for a specific period. Moreover, in two premises the licences for extended serving hours were withdrawn for a specific period and in one premise the licence was permanently withdrawn. Regional state administrative agencies issued serving licence holders with a total of 494 warnings, admonitions and letters of guidance.

In most cases, a permanent withdrawal of the serving licence is a result of the loss of reliability and the fact that there are no longer any economic prerequisites for a licence. This involves substantial or repeated failure to pay taxes and other public charges and serious irregularities uncovered in tax audits that have an impact on the reliability and economic prerequisites of the licence holder (such as hiding of income). The reasons for temporary withdrawals and lenient penalties are more numerous and most of them are connected with alcohol policy issues, such as serving alcoholic beverages to minors or persons who are clearly intoxicated.

RETAIL TRADE

In 2015, regional state administrative agencies withdrew two retail licences for alcoholic beverages for a specific period and one on a permanent basis. Regional state administrative agencies issued a total of 28 holders of retail licences with warnings, admonitions and letters of guidance. As in the serving of alcoholic beverages, a permanent withdrawal of the retail licence is usually a result of the loss of reliability and the fact that there are no longer any economic prerequisites for a licence. At the same time, most of the temporary withdrawals of retail licences and lenient penalties involve alcohol policy issues.

WITHDRAWN LICENCES, 2008–2015

| year | Serving licences | | Retail trade | |
|------|---------------------|-------------|---------------------|-------------|
| | for specific period | permanently | for specific period | permanently |
| 2008 | 95 | 55 | 18 | 9 |
| 2009 | 72 | 83 | 11 | 27 |
| 2010 | 82 | 51 | 12 | 14 |
| 2011 | 69 | 45 | 9 | 21 |
| 2012 | 61 | 25 | 4 | 2 |
| 2013 | 63 | 29 | 6 | 9 |
| 2014 | 42 | 16 | 2 | 0 |
| 2015 | 66 | 35 | 2 | 1 |

NATIONAL SUPERVISION

PROGRAMME FOR ALCOHOL ADMINISTRATION

Valvira is preparing a national supervision programme for alcohol administration in cooperation with regional state administrative agencies. The programme will lay out the measures that licensing authorities are required to take under the objectives set for the alcohol administration by the Government and the Ministry of Social Affairs and Health and the procedures that allow the authorities to focus on high-risk areas on the basis of the supervisory needs. The programme will be reviewed each year and the information required for the assessment of the overall effectiveness of the activities of the licensing authorities and the alcohol administration will be incorporated in the document. In 2015, the focus in the supervision programme was on the development of events-related licence and supervisory work.

SUPERVISION OF ECONOMIC RELIABILITY

Valvira monitors the effectiveness of the supervision of the economic prerequisites carried out by regional state administrative agencies. The purpose of the supervision of the economic prerequisites of the licence holders and licence applicants is, by means of early intervention, to prevent excessive indebtedness of the licence holders and to reduce the number of such operators that do not have the economic prerequisites or reliability to continue the operations. In 2015, licence holders paid about EUR 2,014,000 in tax debts as a result of the requests submitted to them by the regional state administrative agencies as part of reliability assessments.

Valvira and the regional state administrative agencies are taking part in the restaurant project of the Finnish Tax Administration launched in 2015 as part of which the Finnish Tax Administration is carrying out tax audits in hundreds of companies serving alcoholic beverages. The details of the restaurants' alcohol purchases obtained from the alcohol business register serves as an important source of information for the tax audits. The Finnish Tax Administration will submit reports on the tax audits to the regional state administrative agencies and the regional state administrative agencies will assess the reliability of the licence holders on the basis of the reports. The serious irregularities uncovered in the tax audits have affected the reliability to such an extent that in 2015 a total of 16 serving licences were withdrawn on a permanent basis and 35 on a temporary basis. Admonitions and warnings have been issued on account of the milder irregularities uncovered in the tax audits.



// **STATISTICS COMPILED
BY CRIME PREVENTION
AUTHORITIES**

// STATISTICS COMPILED BY CRIME PREVENTION AUTHORITIES

THE POLICE

Source: PolStat

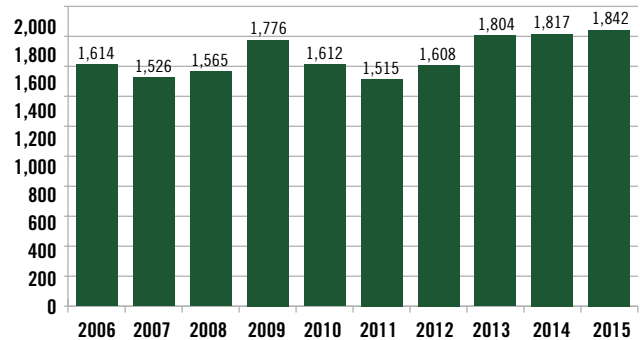
GENERAL

The amount of economic crime involving the grey economy that is reported to the police also greatly depends on how actively the supervisory authorities investigate offences. Even though the Finnish Tax Administration is responsible for the largest number of reports of offences, other supervisory authorities also uncover crime involving the grey economy.

In 2015, a total of 1,842 economic offences were reported to the police. This was a new record in the history of economic offence statistics and 25 higher than in 2014.

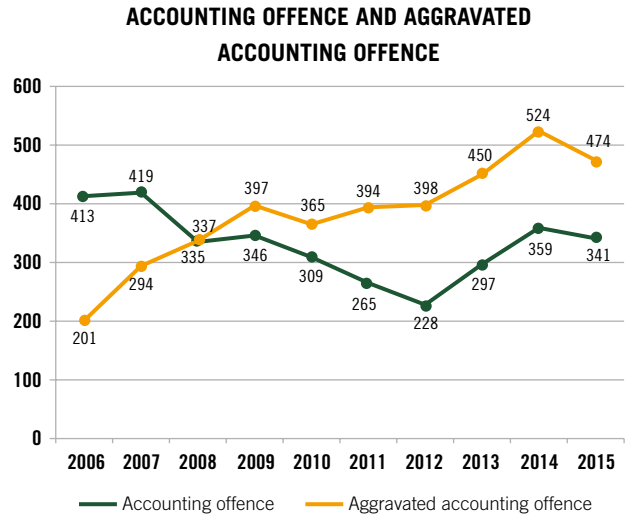
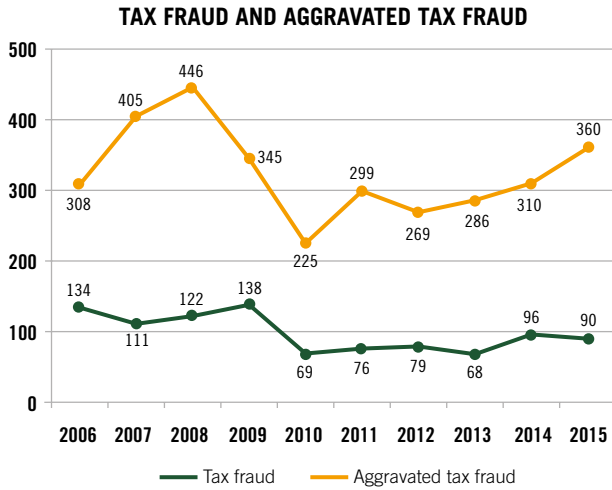
In 2015, the investigation units of the police concluded investigations in 1,958 suspected economic offences, which is a slightly lower figure than in 2014. The large number of asylum seekers coming to Finland had a major impact on the number of concluded cases of economic offences in 2015 and the results of police investigations of economic offences in general. This is because the influx of the asylum seekers also required the involvement of a large number of personnel normally engaged in the investigation of economic offences. The number of open cases remained at previous years' levels.

FINANCIAL OFFENCES REPORTED TO THE POLICE



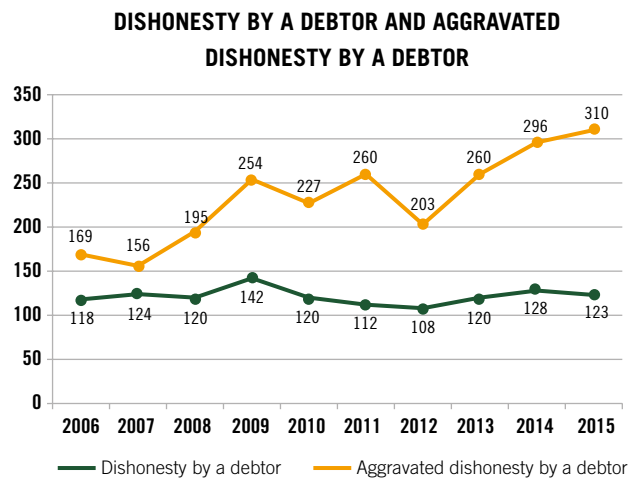
The economic offences reported to the police in 2015 involved a total of 3,680 types of crime. This means an average of two types of crime for each reported case.

The number of cases of aggravated tax fraud reported to the police as part of suspected economic offences in 2015 totalled 360, which is 50 more than in 2014. The number of ordinary tax fraud cases and tax offences remained at previous years' levels.



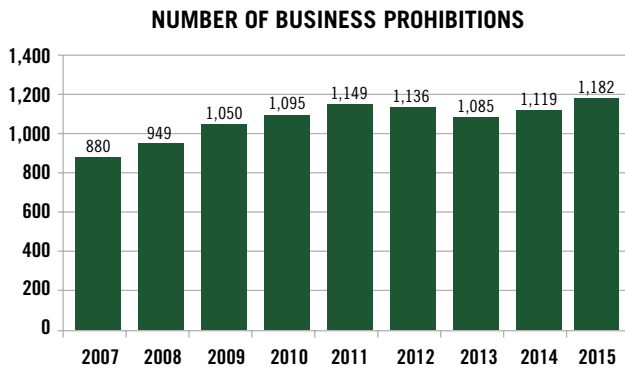
Accounting offence is the most common type of economic offence reported to the police. After the inclusion of an aggravated accounting offence in the Criminal Code, its proportion of all accounting offences has steadily increased. After 2008, more aggravated accounting offences have been reported to the police than ordinary accounting offences. Compared with 2014, there was a slight decline in both aggravated and ordinary accounting offences reported to the police in 2015.

There was again an increase in the number of reported offences involving dishonesty by a debtor. A total of 310 cases involving aggravated dishonesty by a debtor were reported to the police in 2015. The number of ordinary cases was 123.



BUSINESS PROHIBITION

The number of business prohibitions increased steadily between 2000 and 2011. After a slight drop in the past few years, business prohibitions reached a new record in 2015 (1,182). In 2015, a business prohibition was imposed on 384 persons, while a total of 295 business prohibitions expired.



OTHER CRIME INVOLVING THE GREY ECONOMY

Even though tax offences and the offences involving accounting and debtors (which are closely related to tax offences) are the most visible types of crime in the combating of the grey economy, the grey economy also involves a wide range of other offences and violations.

Grey economy operators often neglect the payment of employment pension contributions and provisions and obligations concerning environmental protection and waste management.

Corruption and other inappropriate influence are also closely connected with the grey economy. Criminals often resort to registration offences and forgery to hide the true nature of their activities. The Finnish Customs often uncovers cases involving the use of forged documents.

FINNISH CUSTOMS

Heidi Björk, Head of Analysis Unit, Enforcement Department/ Analysis and Intelligence, Ulla Sinkkilä, Director of Enforcement, Enforcement Department/Corporate Audit and Noora Kallio, Legal Counsel, Foreign Trade and Taxation Department/ Tax Collection

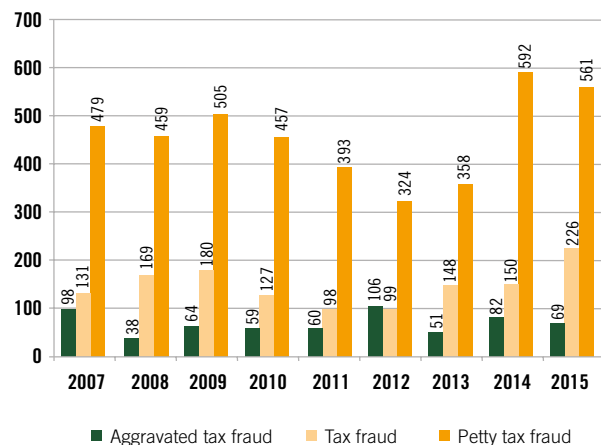
ECONOMIC CRIME UNCOVERED BY THE FINNISH CUSTOMS

Offences involving breaches of the legislation on customs control and tax collection by the customs are investigated as economic crime by the Finnish Customs. Economic crime means crime which is committed in connection with legal business operations and in which the aim is to obtain financial gain. In the cases investigated by the Finnish Customs, the main offence usually involves tax fraud or aggravated tax fraud. Offences involving forgeries and customs clearance and environmental and accounting offences are also investigated by the Finnish Customs as economic crime. The Finnish Customs also classifies smuggling of products on which excise duties are payable (mostly smuggling involving alcohol and cigarettes) as economic crime when it is comparable with business and professional activities even if it was not disguised as business operations.

New phenomena concerning economic crime, such as offences involving e-commerce and Intra-Community supply have made the task of combating economic crime more challenging. The Internet is increasingly used in the marketing and sales of highly taxed products to customers and for circumventing the tax provisions applying to such products. Criminal activities in connection with export and transit procedures in the logistics sector were also uncovered in 2015. The cases that have been investigated by the Finnish Customs have involved goods for which no export declaration has been filed or false description of goods and nomenclature.

In 2015, a total of 856 cases of tax fraud were uncovered by the Finnish Customs (all types), compared with 824 in 2014. A total of 69 cases of aggravated tax fraud were uncovered in 2015, compared with 82 in the year before. Most of the cases of aggravated tax fraud classified as economic crime and investigated by the Finnish Customs in 2015 involved illegal imports of cigarettes, alcohol and snus, vehicle taxes, excise duties and value added taxes, anti-dumping duties and customs warehousing.

TAX FRAUD INVESTIGATED BY FINNISH CUSTOMS



CUSTOMS CONTROL

Counterfeit products

The Finnish Customs controls the imports of counterfeit products and works to ensure that they do not enter the markets. The controls are carried out by such means as checking the items in connection with physical inspections.

COUNTERFEIT PRODUCT CONTROL BY FINNISH CUSTOMS

| | 2012 | 2013 | 2014 | 2015 |
|--|-----------|-----------|-----------|---------|
| Illegally produced counterfeit products (total number) | 279,603 | 193,636 | 90,336 | 92,836 |
| Imported products | 129,166 | 38,309 | 84,605 | 89,792 |
| Calculated value, EUR | 6,426,147 | 5,292,792 | 2,048,436 | 525,724 |
| Notifications to trademark holders | 179 | 126 | 86 | 91 |

There has been a decrease in the calculated value and the total number of counterfeit products detained by the Finnish Customs in recent years. There has been a substantial decrease in large detentions and nowadays most detentions involve postal and freight traffic. At the same time, there has been a substantial decrease in the number of offences against intellectual property rights since 2011. In 2015, the police conducted investigations in three copyright infringements and five offences against industrial property rights. One reason for this trend is the growth of e-commerce, which has led to smaller shipment sizes. A similar trend has also been noticed in other EU countries.

Tax audits

The audits carried out by the Finnish Customs cover customs procedures, excise duties, vehicle taxation, fairway dues, agricultural and internal market aid paid by the EU and the tax boundary between Åland and Mainland Finland. The purpose of the audits is to ensure the fiscal correctness of customs and taxation matters, facilitate foreign trade and protect society by providing fewer opportunities for grey economy operations.

The audits are carried out in real-time and on an ex-ante and ex-post basis by applying different auditing methods and in accordance with nationwide operating practices and guidelines. In addition to corporate audits, document controls and warehouse controls described below, the Finnish Customs also audits accounts and controls procedures and goods. The audits and controls are carried out on a statutory basis or on

the basis of risk analysis. Risk-based selection of audited and controlled entities is supplemented by random sampling.

Corporate audits and document controls

A corporate audit covers the operations, organisation, administration, internal control, business systems and accounting material of a company. Most corporate audits involve a company visit. A corporate audit may be conducted on an ex-ante basis before a licence, permit or position is granted, before a change in a licence or permit is approved or on an ex-post basis after customs clearance or the taxation process. The purpose of an ex-post corporate audit is to review a company's operations and the correctness of its business transactions.

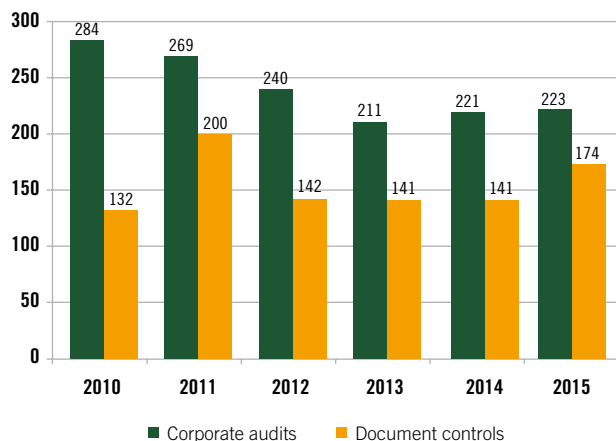
Corporate audits are monitored by recording the number of the audits and the details of post-clearance recovery and debiting of back taxes carried out on the basis of the audits and tax refunds. The effectiveness of ex-ante corporate audits cannot be measured by the amounts of taxes and duties collected by means of additional recovery. However, the audits in question are included in the corporate audits carried out by the Finnish Customs.

In this context, document controls mean the controls of business transactions carried out after customs clearance or the taxation process. Usually the controls are directed at a large number of transactions and customs clearance or taxation decisions. Document controls are usually carried out in the facilities of the Finnish Customs but they may also involve company visits. Document controls are monitored by recording the number of controls and the details of the post-clearance recovery and debiting of back taxes carried out on the basis of the controls and tax refunds. The figures also include controls involving licences and administrative executive assistance, the effectiveness of which cannot be measured by the amount of taxes and duties collected by means of additional recovery.

A total of 387 corporate audits were planned for the year 2015 but in the end a total of 430 audits were performed. Controls of imports, inventories, excise duties and vehicle taxation were laid out as priority areas in the plan. There were a total of 32 audits and controls on entities that had already been classified as grey areas during the planning stage, forensic audits or audits that led to an investigation.

Of the audits and controls that were carried out, about 87 per cent were corporate audits (223) and document controls (150). A total of 24 document controls were also carried out in the Customs Offices Department at the request and under the guidance of Corporate Audit. The number of corporate audits conducted in 2015 was at previous year's levels but there was an increase in the number of document controls. There has been variation in the total number of audits and controls and in their proportions over the years. This variation is the result of the priorities approved for the audits and controls each year, the areas audited and controlled, as well as the increasing use of electronic material.

**CORPORATE AUDITS AND DOCUMENT CONTROLS
BY FINNISH CUSTOMS**



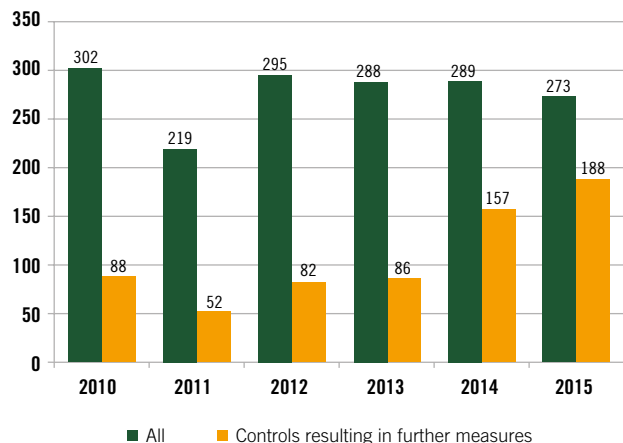
Warehouse controls

In warehouse controls the aim is to ensure that the warehousing operations are in compliance with all permits and licences and that all warehouse transactions are in accordance with tax provisions. The compliance of the operations with requirements is controlled by comparing the licence terms with the actual inventory. The purpose of the controls is to ensure that the warehouse facilities are in accordance with permit and licence conditions and that the reception, warehousing, transfers and deliveries of the items are in accordance with permit and licence conditions and legal provisions. A representative sample of the inventory accounts and the documents appended to them help to ensure that the warehouse transactions are in accordance with tax provisions. A full or partial inventory is carried out in order to ensure that there is no discrepancy between the inventory accounts and the actual number of items.

Warehouse controls are carried out at all types of warehouses and they are the responsibility of the Customs Offices Department. Of the warehouse controls that took place in 2015, 115 were carried out in excise-duty-free warehouses and 158 in customs warehouses, temporary warehouses or free warehouses/zones.

Warehouse controls are monitored by recording the number of controls and the controls resulting in further measures. All controls in which fiscal or non-fiscal errors or shortcomings are uncovered result in further measures. The accuracy of the warehouse controls has been on the increase since 2014. In 2015, the figure was about 69 per cent. The fiscal effect of the warehouse controls amounted to EUR 22,173.

WAREHOUSE CONTROLS BY FINNISH CUSTOMS



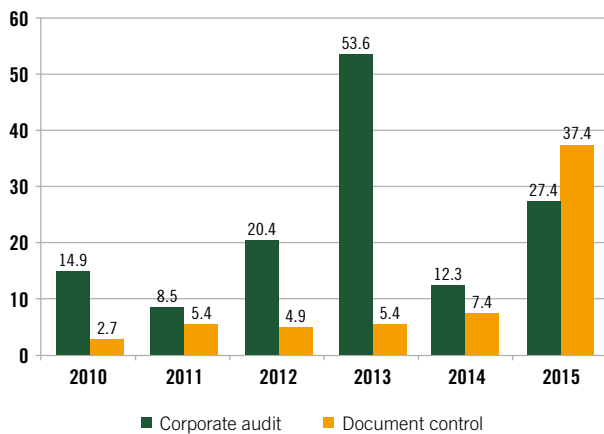
Additional recovery of duties and taxes as a result of corporate audits and document controls

The amount of duties and taxes recovered as a result of corporate audits and document controls is monitored on a quarterly and annual basis. The Finnish Customs reports the additional recovery decisions that have been approved during the year in question. Thus, some recovery of duties and taxes resulting from audits and controls carried out in 2014 are also included in the 2015 statistics.

There may be substantial annual variation in the amount of duties and taxes collected by means of additional recovery. The amounts depend on the auditing and control priorities, the risk analysis and critical selection criteria used in the selection of the entities, proportion of entities that must be audited/controlled by law, the size of the audited and controlled companies and the scope of the audits and controls. A single

large-sized entity or a material error has a significant impact on the annual amount of duties and taxes collected by means of additional recovery. The collection of duties and taxes in 2015 includes two occasions on which substantial amounts were collected by means of additional recovery.

ADDITIONAL RECOVERY RESULTING FROM CORPORATE AUDITS AND DOCUMENTS CONTROLS (EUR MILLION)



The effectiveness of document controls has improved over the years. The substantial improvement in 2015 was primarily the result of one document control, which was of great fiscal importance. The fact that the document controls are mainly on the basis of electronic material has also helped to improve their effectiveness. Import document controls, and the vehicle taxation document controls based on the system data of the Finnish Customs and Trafi are examples of this.

Collection of taxes on goods and tax arrears

Taxation and control of goods is not on the same basis as the income and capital gains taxes collected by the Finnish Tax Administration, which are determined retroactively on the basis of accounts and tax returns. The way in which an item is taxed depends on the category it belongs to, which in turn is determined on the basis of nomenclature (customs tariffs). The origin and weight of the item and its sugar or alcohol content may be important factors in this respect.

Customers of the Finnish Customs can choose between cash or credit customership. As the name suggests, cash customers can only take possession of the goods that they have ordered after paying all taxes and duties. The Finnish Customs has the right to request collateral from credit customers. The Finnish Tax Administration does not have a similar division into cash and credit customers or similar tools preventing its customers from incurring debts. Real-time control is a characteristic unique to the management of goods flows and, consequently, to taxation of goods.

The purpose of tax collection is to collect taxes so that tax arrears are minimised and the costs of the credits (collateral) granted to a company are in the right proportion to the risk involved. This requires continuous, cost-effective and systematic monitoring of the solvency of companies and correctly measured collateral and correctly timed recovery measures. The Finnish Customs is making continuous inputs in ex-ante controls (permits, licences and requirements for them) and ex-ante securing of claims.

The tax arrears owed to the Finnish Customs for 2015 totalled about EUR 14 million. The Finnish Customs collected a total of EUR 10.5 million in duties and taxes for 2015 and of this total 0.13 per cent were in arrears. The figures for the same period last year were nearly EUR 11 million and 0.11 per cent. During 2015, the Finnish Customs managed to recover about EUR 7.9 million of the taxes that had fallen due in 2014.

The tax arrears rate (0.13%) of the Finnish Customs is considerably lower than the rates presented in the European payment method survey carried out by Intrum Justitia.³ According to the survey, the claims entered as credit losses in Finland amounted to 1.1 per cent of the total.

³ <https://www.intrum.com/fi/Media-ja-julkaisut/maksutaparaportti/>

// SPECIAL RECOVERY
BY ENFORCEMENT,
BANKRUPTCIES AND
PAYMENT DEFAULTS



// SPECIAL RECOVERY BY ENFORCEMENT, BANKRUPTCIES AND PAYMENT DEFAULTS

SPECIAL RECOVERY AS PART OF ENFORCEMENT

Enforcement means implementation of defaulted payment liabilities and other obligations referred to in the Enforcement Code. Effective enforcement contributes to the combating of the grey economy, which is also the main priority in special recovery by enforcement. Other aims are the recovery of the proceeds of crime and support for ordinary recovery, especially in lengthy enforcement processes. These aims also help to make enforcement more effective and credible and to ensure that enforcement is equally effectively applied to those who try to hide assets from creditors.

Many of the above-mentioned cases involve grey economy operators and debtors sentenced for financial offences. The asset arrangements that special recovery deals with are often complex and have been constructed over many years. Sometimes they are completely hidden under grey economy operations.

Cooperation and exchange of information between the authorities is crucial to the combating of financial crime and the grey economy. Since 2011, special recovery has been more extensively applied and as a result, cooperation between the authorities most closely involved in the efforts is now on a regular and well-organised basis nationwide. Special recovery by enforcement comprises six special recovery districts that cover the whole country.

Enforcement is being continuously developed. The aim of the development efforts is to ensure that the work input of the personnel could be shifted from routine tasks to enforcement matters requiring a great deal of time and investigative effort. The development work is naturally also affected by the substantial cuts in the appropriations allocated to enforcement, which will put the special recovery resources under pressure. In fact, as a result of the elimination of the supplementary appropriation for combating the grey economy, such pressures already exist.



SPECIAL RECOVERY IN FIGURES

Enforcement involves the processing of the matters of hundreds of thousands of debtors and in the ordinary enforcement process it is impossible to spend unreasonable amounts of time on investigating the asset position of each individual debtor. Special recovery mainly deals with debtors in whose case investigation of the asset position requires a great deal of time and effort. Such debtors often resort to different types of arrangements to put their assets out of the reach of enforcement authorities. As the investigation of special recovery cases often takes many years the final results will only be seen over a long period of time. Thus, examining the statistics for one year does not always give a correct picture of the actual situation. In general, it should be noted that there is often annual variation in the monetary result of special recovery activities.

For this reason, when the success of special recovery is examined, the focus should be on the measures taken in cases involving abuse and the number of cases that have been solved and that are under investigation. These are important as they help to prevent abuse and arrangements aimed at avoiding the payment of taxes. The amount of distrained and seized property is also an indication of the effectiveness of the operations. This property is only transferred to the creditors as assets at a later stage after the completion of the appeal and other processes.

A substantial proportion of the financial results of special recovery is also generated through a process in which the special recovery authorities transfer property that they have uncovered to other enforcement authorities for further action. Property is also transferred to cooperation authorities and bankruptcy estates.

YEAR 2015

Special recovery is now an effective and well-established part of enforcement in all parts of Finland. The amounts recovered were substantially higher than in 2014, whereas the amount of distrained and seized property decreased slightly.

The debts transferred to special recovery for processing in 2015 totalled about EUR 229.3 million and preventive measures accounted for about EUR 81.7 million of this amount.

PRODUCTIVITY OF SPECIAL RECOVERY

The amount of money transferred to special recovery creditors totalled about EUR 29 million in 2015. During enforcement, creditors and debtors agreed on payments totalling about EUR 1.6 million, while an additional EUR 0.8 million was directly paid to creditors during enforcement. A total of EUR 9.1 million in property was assigned to other enforcement authorities for distraint or seizure. Property valued at about EUR 10.5 million was transferred to cooperation authorities, deceased's estates or creditors for seizure or other measures. Taking into account all of the above-mentioned amounts, the monetary outcome of special recovery in 2015 totalled about EUR 51.0 million.

At the end of 2015, the value of distrained and seized property totalled about EUR 87.5 million and EUR 74.7 million, respectively.

RESULTS

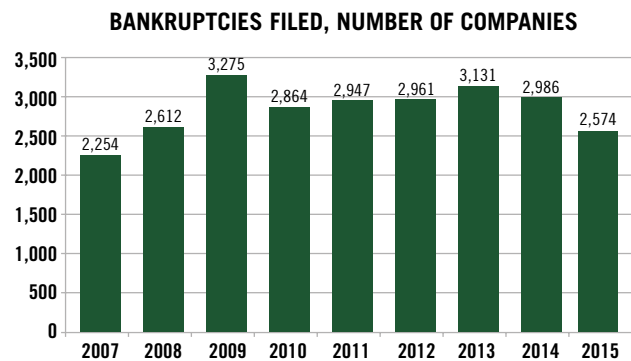
Nearly all the targets set out for the special recovery districts concerning the number of processed cases for 2015 were achieved and exceeded. The number of measures aimed at tackling abuse by debtors remained at 2014 levels and the Finnish Tax Administration fell slightly short of the targets set for this area.

Successful activities have helped to strengthen the position of special recovery as part of the combating of grey economy by means of official action. Effective action by the enforcement authorities, especially the success of the special recovery, is at the heart of combating the grey economy. The results obtained by nationwide application of special recovery by enforcement are encouraging and they have helped enforcement authorities to play a more effective role in the combating of the grey economy. However, the enforcement organisation is facing substantial budget cuts and the supplementary funding allocated for the combating of the grey economy will not be extended beyond 2015. As the appropriations are being cut, the extent of the special recovery operations must also be reviewed.

BANKRUPTCIES 2015⁴

NUMBER OF BANKRUPTCIES DECLINED BY 13.8 PER CENT IN 2015

According to Statistics Finland, a total of 2,574 bankruptcies were filed in Finland in 2015, a decline of 412 (13.8%) compared with 2014. The companies filing for bankruptcy had a total of 10,902 employees, which was 3,049 (21.9%) fewer than in 2014.



There was a decrease in the number of bankruptcies in the industries, mining, construction, trade, transport, warehousing, and hotel and restaurant sectors, as well as in other services. In numerical terms, the biggest reduction was in the construction sector. A total of 522 bankruptcies were filed in the sector in 2015, which is 124 (19.2%) fewer than in 2014.

The number of bankruptcies filed increased in the agriculture, forestry and fishing sector during 2015. A total of 67 bankruptcies were filed in the sector, which was six (9.8%) more than in 2014.

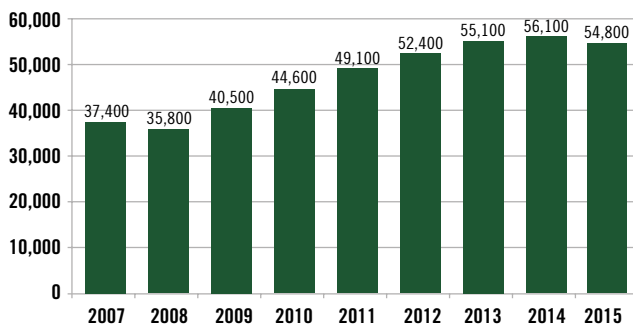
'Bankruptcies filed' means the companies, corporations or natural persons for which bankruptcy petitions are filed during a calendar year. Filing for a bankruptcy does not always mean that the company or self-employed person in question 'goes' bankrupt in the actual sense of the word. A bankruptcy is a complex court process involving many different stages and the parties may also decide to discontinue the procedure when it is still pending.

⁴ Official Statistics of Finland (OSF) Bankruptcies [e-publication]. ISSN=1798-4424. December 2015. Helsinki: Statistics Finland [referred: 16 February 2016]. Source: http://www.stat.fi/til/konk/2015/12/konk_2015_12_2016-01-27_tie_001_fi.html

PAYMENT DEFAULTS 2015⁵

The number of payment default entries registered for companies decreased for the third successive year and in 2015 there was also a reduction in the total number of companies with payment defaults.

**NUMBER OF COMPANIES WITH PAYMENT DEFAULTS
AT YEAR'S END**



At the end of 2015, the registers of Suomen Asiakastieto contained details of 54,800 companies with payment defaults. More than 33,000 companies were registered with new payment defaults during the year, which means that on average there were six new entries for each of them.

Usually, one payment default entry is already a sign of serious economic problems.

COMPANIES IN HOTEL, RESTAURANT AND CONSTRUCTION SECTORS HAVE THE LARGEST NUMBER OF ENTRIES

According to Suomen Asiakastieto, about 7.9 per cent of all active companies have payment default entries. However, there are substantial differences in risks between sectors. In the hotel and restaurant sector and the construction sector, one company in five has payment default entries (22.1% and 21.8%, respectively).

⁵ Source: Suomen Asiakastieto