



### Construction Sector reporting requirements, Finland

Title of the policy or measure (in English)	Information reporting requirement in the Finnish construction industry <sup>1</sup>
• Case study/good practice name	Obligations for main contractors and contractors in supply chains: information reporting requirements in the Finnish construction industry
• Country	Finland
• Sectors	Construction sector
• Target groups	Main contractors, building site developers and subcontractors
• Type of measure	Prevention
• Short sentence summarising the measure	This measure requires companies or agencies who order a construction service (i.e. customers) to provide the Tax Administration on a monthly basis with the names of all companies or people from whom they have ordered construction services and details of any contract that they have concluded.
Background	
• Background context driving the implementation of the measure	Undeclared work has been relatively common in the construction sector service supply chains and relatively easy to hide. The problem is related to increased competition in the sector, pertinent both to larger construction projects as well as to small individual projects. The sector uses a variety of self-employed, hired work and also non-registered subcontractors including foreign labour e.g. from Estonia and even illegal migrants. Since 2007 the legislation obliges the main contractor to keep account of the subcontractors' statutory payments (taxes, pension contributions) and working conditions, which has been an important part of the wider battle against the grey economy in different sectors. However, control measures were inadequate before the new legislation and focused mainly on the on-site checks made by Occupational Safety and Health Authorities. The new reporting obligation is concerned with enhancing the control of existing legislation.
• When was the measure implemented? (including start date and end date/ongoing)	July 2014 – ongoing
• Names(s) of authorities/bodies/organisations involved	Tax Administration
• Scope of the measure (a pilot project, nationwide, regional wide)	Nationwide
• Type of (policy) measure	Increased monitoring system to prevent undeclared work in the construction sector

<sup>1</sup> Section 15c of Act on Tax Assessment Procedure 1558/1995 and sections 52b, 53 and 68 of Government Decree on the Safety of Construction Work 205/2009

<ul style="list-style-type: none"> <li>• Key objectives of the measure</li> </ul>	<p>According to the Government Proposal (92/2012) the aim of changes in the legislation include the following:</p> <ul style="list-style-type: none"> <li>• to encourage unregistered companies in the construction industry to register for tax;</li> <li>• to ensure that any previously undeclared work of registered companies is taxed;</li> <li>• to increase the government's tax income;</li> <li>• to decrease the grey economy in the construction industry and to support fairer competition in the sector;</li> <li>• to support the competitiveness of honest companies in the market.</li> </ul>
<p><b>Specific measure</b></p>	
<ul style="list-style-type: none"> <li>• Description of how the measure operates in practice</li> </ul>	<p>The Information Reporting Requirement works as follows:</p> <ul style="list-style-type: none"> <li>• Businesses, corporate entities or self-employed professionals buying construction services must file reports, electronically or manually, every month with the Tax Administration, detailing their current contracts. This includes contract details of contracting parties, total value of the contract, contract duration, and transaction data. The reporting threshold is EUR 15 000 in total contract value.</li> <li>• The main contractor on a shared construction site must file reports on the names of all the people who are working there including their own employees, the employees of other contractors, and any independent, self-employed individual contractors and leased employees (temporary agency workers) working on the building site.</li> <li>• The project supervisor at each site must first gather the details, and then report them to the tax administration in a centralised manner.</li> <li>• The contract information and employee information are not interconnected and both of them are not always necessary.</li> <li>• In case of failure to fulfil the obligation to check or gather information, the contractor shall be obliged to pay a negligence fee ranging from EUR 2 000 to EUR 85 000 depending on the severity of the negligence, ordered by the Regional State Administrative Agency for Southern Finland. The higher fees apply only in the construction sector.</li> <li>• In addition tax authorities can impose a negligence fee if the information is not passed to them or if it is not in the required form.</li> </ul>
<ul style="list-style-type: none"> <li>• Which groups are targeted by the measure?</li> </ul>	<ul style="list-style-type: none"> <li>• All contractors for the construction work (direct)</li> <li>• Subcontractors (direct)</li> <li>• Construction industry workers involved in undeclared work (direct)</li> <li>• Foreign workers in the construction industry (direct/indirect)</li> <li>• Construction industry workers not involved in undeclared work (indirect)</li> </ul>
<ul style="list-style-type: none"> <li>• What resources and other relevant organisational aspects are involved?</li> </ul>	<p>The measure was part of the Enhanced Action Programme for Combating the Shadow Economy and Financial Crime 2012-2015. As well as the Tax Administration, the measure involved the Ministry of Social Affairs and Health.</p> <ul style="list-style-type: none"> <li>• The government budget contained a EUR 20 million allocation for the above mentioned Action Programme. The Information Reporting Requirement was financed partly from these resources but also from the tax administration's budget in order to implement the legislation described. The overall measure also included an awareness raising campaign against shadow economy. Tax administration resources were increased temporarily as part of this Action Programme budget. The funds were sourced from the productivity programme of the central government.</li> </ul>

	A ministerial working group on the fight against the shadow economy has supervised the progress of implementing the Action Plan, and made propositions for further measures. The practice is ongoing on the level of permanent legislation.
<ul style="list-style-type: none"> <li>What are the source(s) of funding?</li> </ul>	Government budget. The funds have been sourced from the productivity programme of the central government.
<b>Evaluation and outcome</b>	
<ul style="list-style-type: none"> <li>Has the measure achieved its objectives?</li> </ul>	<p>The Grey Economy Information Unit has studied the impact on the construction sector of the legislative changes concerning the Information Reporting Requirement measure. The evaluation included a study of legislation introduced since 2011 affecting construction companies' independent notifications, i.e.</p> <ol style="list-style-type: none"> <li>1) Tax number register/Independent tax numbers</li> <li>2) Reverse charge mechanism for VAT</li> <li>3) Extended duty to notify contractors and employees in the construction sector</li> </ol> <p>Based on the Tax Administration report (2017)<sup>2</sup> including statistical and qualitative data, the new measure appears quite successful in terms of increasing declared businesses and work. The legislative changes concerning the construction sector have boosted tax revenue and increased companies' independent notifications given for tax purposes. This increase in notifications is seen in the higher payroll figures, mainly arising from new companies. The extent to which the pay of foreign nationals is included within the tax system has improved, although deficiencies in taxation coverage were also found.</p> <p>Overall it seems that the culture has become healthier in terms of transparency and adequate payrolls. However, on the downside is the increased administrative burden both on the side of the contractors and the tax administration. Further development is called for on the level of concrete practices, information exchange and especially in the use of electronic systems to foster the technical processing of information. Cuts in the public authorities' resources may threaten the implementation of the new system in long term.</p>
<ul style="list-style-type: none"> <li>Assessment method (including indicators used to measure its impact), and the outputs and outcomes achieved</li> </ul>	<p>The method involved the following:</p> <ul style="list-style-type: none"> <li>• Complex assessment<sup>3</sup> which utilised mostly existing administrative registers, data, and also the results of the Labour Force Survey (for working hours) and sector-specific survey.</li> <li>• Main indicators: Tax income, VAT income, sector-specific payroll, work price<sup>4</sup>, and number of working hours</li> </ul> <p>The outputs and outcomes achieved included:</p>

<sup>2</sup> Tax Administration (2017), *Information reporting requirements in the construction industry – effectiveness of the legislation (Rakentamisen tiedonantovelvollisuus urakka- ja työntekijätiedoista – lainsäädännön vaikuttavuus)*, Grey Economy Information Unit 14 March 2017. Internet: [https://www.vero.fi/contentassets/34a8e1195a4f4fdd83f1bc6721dc7497/2017\\_007-rakentamisen-tiedonantovelvollisuus.pdf](https://www.vero.fi/contentassets/34a8e1195a4f4fdd83f1bc6721dc7497/2017_007-rakentamisen-tiedonantovelvollisuus.pdf)

<sup>3</sup> See Tax Administration (2017) (in Finnish) for details. Internet: [https://www.vero.fi/contentassets/34a8e1195a4f4fdd83f1bc6721dc7497/2017\\_007-rakentamisen-tiedonantovelvollisuus.pdf](https://www.vero.fi/contentassets/34a8e1195a4f4fdd83f1bc6721dc7497/2017_007-rakentamisen-tiedonantovelvollisuus.pdf).

<sup>4</sup> Total payroll consists of the number of working hours and the price of the work.

	<ul style="list-style-type: none"> <li>• The total package of the construction sector measures (including reversed VAT, tax number register and extended reporting obligations) increased the sectoral payroll by about EUR 300 million and tax income by about EUR 100 million in 2015.</li> <li>• The share of the extended reporting obligations was EUR 30-31 million of the payroll increase and EUR 10-11 million of the tax income increase. In addition, the share of the VAT income increase due to the contract reporting obligations was about EUR 20 million.</li> <li>• Foreign workers' income tax increased and were wider in the realm of taxation</li> <li>• Increases in the total of employer statutory payments</li> <li>• Increases in the total construction industry sales and VAT payments</li> </ul>
<ul style="list-style-type: none"> <li>• What are lessons learnt and the key conditions for success?</li> </ul>	<p>Key conditions for success of the measure and lessons learnt include:</p> <ul style="list-style-type: none"> <li>• The need for political will to introduce this model.</li> <li>• Social partners have played an important role in supporting the establishment of this model.</li> <li>• Tightening of tax controls has resulted as expected in rather large tax income increases. This is based on a multi-sectoral policy programme, a decade long preparation and changes to the legislation. In addition, the exchange of information between different authorities due to these changes has been an important element to promote supervision.</li> <li>• The success of the measure has required highly technical information-gathering tools and processes, and wide compliance on behalf of the construction sector.</li> <li>• The extent of the administrative burden is difficult to assess but it seems that the benefits clearly outweigh the disadvantages as competition is being revived in the sector.</li> <li>• A total of 22 simultaneous programmes<sup>5</sup> were launched in the period of 2012-2015 which were based on well formulated legislation already in place (e.g. specifying public procurement legislation, conducting studies on the possibilities of increased transparency of wage payments, and on increased accounting obligations in international company mergers etc.)</li> </ul>
<ul style="list-style-type: none"> <li>• Level of transferability (e.g. other countries/groups/sectors)</li> </ul>	<p>Issues concerning transferability include the following;</p> <ul style="list-style-type: none"> <li>• The contract reporting requirement is applied to all actors ordering construction work, not only to the actors operating specifically in the construction sector.</li> <li>• The reliance on electronic resources like web databanks is crucial in the practical implementation of the reporting system, but this requires a very comprehensive national registration system and also the administrative and technical means to coordinate it.</li> <li>• The Finnish Tax authority has achieved considerable legitimacy and experience in exercising tighter control without major resistance. However, this may not be the case in many other countries.</li> </ul>
<b>Additional information</b>	
<ul style="list-style-type: none"> <li>• Contacts</li> </ul>	<ul style="list-style-type: none"> <li>• Perttu Puukko, Senior Advisor, Corporation Tax Unit/Steering and Development Unit</li> </ul>

<sup>5</sup> The Government of Finland (2012). The Enhanced Action Program for Combating the Shadow Economy and Financial Crime 2012-2015. 19 January 2012. Internet: <http://vm.fi/documents/10623/360820/Tehostettu+harmaan+talouden+ja+talousrikollisuuden+torjunnan+toimintaohjelma+vuosille+2012-2015/c0c9a84d-ffa6-4326-b59c-f8074ef77d9d> (Accessed 27 June 2017)

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- Sections 52 b, 53 and 68 of Government Decree on the Safety of Construction Work 205/2009 (<http://www.finlex.fi/fi/laki/alkup/2013/20130364>) (Accessed 6 July 2017)
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- The Employment Contracts Act (55/2001) Chapter 11 a – The employer's responsibility when illegal foreign labour is contracted
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- The latest translated overview of the measure in English Internet: <https://www.vero.fi/en/detailed-guidance/guidance/48413/information-reporting-requirement-in-th2/> (Accessed 27 June 2017)
- Electronic resource containing companies' register information. Internet: [www.tilaajavastuu.fi](http://www.tilaajavastuu.fi) helps contractors to pre-manage the obligations
- Tax Administration (2017), *Rakentamisen tiedonantovelvollisuus urakka- ja työntekijätiedoista – lainsäädännön vaikuttavuus. (Information reporting requirements in the construction industry – effectiveness of the legislation.)* Grey Economy Information Unit 14 March 2017. Internet: [https://www.vero.fi/contentassets/34a8e1195a4f4dd83f1bc6721dc7497/2017\\_007-rakentamisen-tiedonantovelvollisuus.pdf](https://www.vero.fi/contentassets/34a8e1195a4f4dd83f1bc6721dc7497/2017_007-rakentamisen-tiedonantovelvollisuus.pdf) (Accessed 27 June 2017)
- General information and further links on Grey Economy in English by Tax Authority,; Internet: <https://www.vero.fi/en/About-us/information-and-material-on-taxation/combating-the-grey-economy/> (Accessed 27 June 2017)

- Metadata and key words for online search

Finland; Act on Contractor's Obligations and Liability; construction sector; contract reporting; employee reporting; supply chains; undeclared work; statutory obligations; grey economy; fair competition; subcontractors; temporary agency workers; illegal workers; Tax Administration; real-time tax control; electronic reporting; posted workers