

# THE OECD TAX-BENEFIT MODEL FOR FINLAND

Description of policy rules for 2018



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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Finland: Policy rules in 2018

### 1. Reference wages

The 2018 (preliminary) average wage **[AW]** is EUR 43 914.<sup>1</sup>

Finland has no statutory minimum wage **[MIN]**.

### 2. Unemployment benefits

There exists a three-tier system of unemployment benefits in Finland:

- a basic benefit: Basic unemployment allowance (*Peruspäiväraha*),
- an earnings-related benefit: Earnings-related unemployment allowance (*Ansiosidonnainen työttömyyspäiväraha*), and
- a means-tested benefit: Labour market subsidy (*Työmarkkinatuki*).

In the model, the basic benefit and the earnings-related benefit are classified as unemployment insurance. Both benefits are described in Section 2.1. The follow-up benefit (Labour market subsidy) is classified as unemployment assistance. It is described in Section 2.2.

#### 2.1. Basic unemployment allowance (*Peruspäiväraha*) & Earnings-related unemployment allowance (*Ansiosidonnainen työttömyyspäiväraha*)

Code in the OECD tax-benefit model:<sup>2</sup> **[UI\_p; UI\_s]**

Basic unemployment allowance and Earnings-related unemployment allowance are unemployment insurance benefits. They are contributory, not means-tested and taxable.

 The basic benefit is funded by the state and employees (share of employees' unemployment insurance contribution paid by employees that are not members of unemployment funds). The earnings related scheme is funded by the state, employers, employees and unemployment funds.

##### 2.1.1. Eligibility conditions

**Age:** between 17 and 64 years old.

<sup>1</sup> AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

**Contribution/employment history:** 26 weeks of work (minimum of 18 hours per week) in the last 28 months. Wage must be according to the collective bargaining agreement or if there is no such agreement for the sector, the salary for full-time employment must be at least EUR 1 189 per month (2018). The former is assumed in the model.

For earnings-related benefit: The employment condition has to be fulfilled while being insured as a member of an unemployment fund. Membership of unemployment fund is voluntary. In the model it is assumed that a person is the member of the unemployment fund.

**Behavioural requirements and related eligibility conditions:**  The benefit is payable to any registered unemployed person, who is available for and actively seeking full-time work. A person aged 17-24 must apply for vocational training unless already obtained. TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.<sup>3</sup>

There are also other obligations. Breaking such obligation may result in a waiting period, e.g.:

- if the unemployed person, without a justifiable reason, refuses to take on work or declines to enter training.
- if the job applicant refuses to take part in preparing a job-seeking plan.
- if the unemployed person resigns from a job without an acceptable reason or is personally responsible for causing termination of the employment contract.

Such cases are not considered in the model.

### 2.1.2. Benefit amount

**Basic benefit:** EUR 32.40 per day (paid 5 days per week).

**Earnings-related benefit:** Earnings-related benefit is the sum of three components:

- basic benefit
- 45% of daily reference earnings in excess of the basic benefit until the threshold
- 20% of daily reference earnings in excess of the threshold

The threshold is the 95-fold basic allowance:  $95 * \text{basic benefit} / 21.5 = \text{EUR}143.16$  per day.

**Daily reference earnings:** In these calculations, the daily reference earnings are calculated as follows:

$$1. \text{ Monthly earnings (M)} = \text{gross earnings in the reference year} / 12.5$$

Monthly earnings are calculated here to exclude additional holiday pay included in the average wage (AW), hence the division by 12.5 instead of 12. Note that in practice the 26 week period needed to fulfil the employment condition is usually used as reference period, excluding additional holiday pay.

$$2. \text{ Daily earnings (D)} = \text{M} / 21.5$$

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<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbucher \(2015\)](#) and [Venn \(2011\)](#).

It is considered that there are 21.5 working days in a month.

3. Daily reference earnings (DRE) =  $D * 95.52\%$

The deduction is 60% of the sum of employees' pension insurance contribution (under 53 years old), unemployment insurance contribution and earned income contribution for health insurance). This is done in order to avoid "over compensation" since these contributions are paid from wage and salary income but they are not paid on benefit income. Since 2010 deduction has been formally connected to the level of social insurance contributions.

**Child increase:** The earnings-related benefit is calculated from the basic benefit excluding the child supplement. The child supplement is then added to earnings-related benefit. Child increase is paid if the recipient has children who are under 18 years old. If both parents are unemployed, both receive the basic/earnings-related allowance and both receive the child increase.

Number of children	Total child supplement (EUR per day*)
1 child	5.23
2 children	7.68
3 or more children	9.90

\*Monthly/yearly equivalents are obtained using 21.5 days per month, 12 months per year.

**Maximum and minimum:** The earnings-related allowance can be a maximum of 90% of the daily wage, but at least equal to the basic allowance plus any child increases.

**Increased allowance:** If recipient participates in an employment promotion measure an increased benefit is paid (*not covered by the model*). Increased allowance is paid during measures for a maximum of 200 days. .

The increased earnings-related allowance is 55% (normally 45%) of the difference between daily reference earnings (DRE) and the basic allowance. If DRE exceeds the 95-fold basic allowance, the increased earnings-related allowance declines to 25% (normally 20%) for the part in excess.

In case of increased earnings-related allowance the maximum limit is 100% of daily wages.

Recipients of basic allowance are entitled to increased allowance with similar conditions (excluding the unemployment fund membership). The increase is EUR 4.74 per day (paid 5 days per week).

**Activity requirement:**

Since 2018 an unemployed jobseeker must fulfil the activity requirement during each review period comprising 65 payment days (i.e. 3 calendar months; the benefit is paid 5 days per week) in order to be entitled to the full earnings-related allowance for the next 65 payment days.

If unemployed jobseeker does not fulfil the activity requirement, unemployment benefit will be cut by 4.65% for the next 65 payment days. The 4.65% reduction will be applied to total amount including possible child increases and increased amounts. However, reduction is always calculated from the full benefit, i.e. reductions do not accumulate over time.

The criteria for the activity requirement are met if a benefit recipient fulfilled one of the following conditions during a review period of 65 payment days:

- was employed for a total of one employment requirement week (i.e. 18 hours during 65 days)
- earned a total of at least 23% of the monthly earnings set in the employment requirement for the self-employed from business activities (in 2018: EUR 241 during 65 days)
- participated in employment promotion measures (or other similar activities) for a total of five days (*this case is not considered in the model*).

In certain situations (e.g. a person with disability, a family carer) activity is not monitored and the allowance is not reduced.

In the model it is assumed that the activity requirement is not fulfilled and the benefit is reduced after the first 65 days (unless a person is involved in relevant employment activity as described above in bullet points 1 and 2).

### 2.1.3. Benefit duration

**Maximum payment period:** The maximum payment period is 400 days (80 weeks; 5 days per week) after a 5-day waiting period (*waiting period is not simulated*). If the employment record is less than 3 years, the maximum payment period of earnings-related benefit is 300 days (the remaining 100 days the basic benefit is paid).

For those who have fulfilled the employment condition after the age of 58 the maximum payment period is 500 days. In addition, it is required that the person has been in employment with pension entitlement for at least 5 years during the past 20 years.

**Repeated application:** If a person applies repeatedly for a new earnings-related unemployment benefit, the so called “return condition” must be satisfied. Since 1 January 2010 the return condition has been the same as the employment condition. (*not covered by the model*)

**Additional days:** An unemployment allowance can also be paid after the 500-day maximum period for older workers (“additional days rule”).

Persons born in 1950-1954 / 1955-1956 /1957 or thereafter: A person can be paid an allowance up to the end of the month when he/she reaches the age of 65 if the person has reached the age of 59 / 60 / 61 before the 500 days have accrued.

In the model age is used to simulate eligibility for “additional days”. In 2018 those born in 1957 reach the age of 61. Thus, they and all who were born earlier (and are above 61) are eligible for “additional days”. However, those born in 1958 (i.e. reaching the age of 60) or later are not qualified.

In addition, in order to qualify for additional days it is required that the person has been in employment with pension entitlement for at least 5 years during the past 20 years.

### 2.1.4. Means test

The benefit is not means-tested.

### 2.1.5. Tax treatment

Taxable. Subject to health insurance contribution (for medical care).

### 2.1.6. Interactions with other components of the tax-benefit system

In addition to unemployment benefit a person/household may receive housing allowance and also social assistance as a top-up to other benefits.

### 2.1.7. Combining benefit receipt and employment/starting a new job

If an unemployed person begins to work part-time (including irregular work with reduced working time and full-time employment for a period not exceeding two weeks), the person is entitled to receive a so called adjusted unemployment benefit (*soviteltu työttömyysetuus*). The employee may also be entitled to adjusted unemployment benefit for some other reasons (e.g. if employer changes employment from full-time to part-time). The working hours may not exceed 80% of the working hours of full-time work (change 1.1.2012).

The unemployment benefit is reduced by 50% of gross income exceeding disregard of EUR 300 per month. The maximum amount of combined adjusted benefit (including child supplement) and income from part-time work may not exceed 100% of the reference earnings. Since 2010 there is no maximum period for adjusted unemployment benefit.

Persons working shortened work week with correspondingly reduced wage (less than 80% of regular working time): If working time has been reduced by at least one full day the person is entitled for full unemployment benefit during lay-off days. The rule is not applied to persons working reduced hours each day even if the reduced working time is less than 80% of regular working-time. The rule covers only workers and not unemployed people starting to work for a shortened work week. The rule was first applied as temporary to lay-off days between 4.1.2010 and 1.1.2012. Since 1.1.2012 the rule was introduced as permanent legislation. (*Not covered by the model*)

## 2.2. Labour market subsidy (Työmarkkinatuki)

Code in the OECD tax-benefit model: [UA\_p; UA\_s]

Labour market subsidy (LMS) is non-contributory, means-tested and taxable. 

### 2.2.1. Eligibility conditions

**Age:** between 17 and 64 years old.

**Behavioural requirements and related eligibility conditions:**  The same as for basic benefit and earnings-related benefit (see Section 2.1.1. )

### 2.2.2. Benefit amount

The maximum LMS is equal to the basic unemployment allowance (see Section 2.1.2. ). Since 2002 the child supplements are the same as well.

For first time entrants to the labour market who live with their parents the labour market subsidy is reduced (*not covered by the model*).

The recipient is entitled to a supplement if he/she is taking part in a service promoting employment. The supplement/increase is EUR 4.74 per day (5 days per week). (*not covered by the model*)

### **Activity requirement**

Since 2018 an unemployed jobseeker must fulfil the activity requirement in order to receive the full benefit. In the model it is assumed that the requirement is not fulfilled (unless a person is involved in relevant employment activity) and the benefit is reduced by 4.65% after the first 65 days of receipt. See Section 2.1.2. for more details.

#### *2.2.3. Benefit duration*

Unlimited. There is a 5-day waiting period. First-time entrants to the labour market must complete a 5-month (21 weeks) qualifying period, unless they have recently graduated from a vocationally oriented educational institute. (*Waiting period is not considered in the model.*)

#### *2.2.4. Means test*

The benefit is means-tested. In principle the tested income includes earnings, different allowances and capital income. However, own earned income is income-tested according to the rules of the adjusted LMS (see Section 0) and since 1 January 2013 partner's income is excluded from the means-test. Child allowance, home care allowance, maintenance support, social assistance and housing allowance are also fully disregarded from the income test. Therefore the importance of the means-test is limited.

The disregarded amount equals EUR 1 044 per month for couples and lone-parents or EUR 311 per month for a single plus EUR 130 per month for each dependent child. The LMS benefit is reduced by 50% of the gross income exceeding the disregard; for a single person - by 75%.

The income test is suppressed (except for own earned income):

- For unemployment allowance recipients aged 55 or more, who at the time they became employed satisfied the employment condition.
- During any period in which the recipient participates in measures supporting his/her integration into the labour market.

#### *2.2.5. Tax treatment*

Taxable. Subject to health insurance contribution (for medical care).

#### *2.2.6. Interactions with other components of the tax-benefit system*

In addition to unemployment benefit a person/household may receive housing allowance and also social assistance as a top-up to other benefits.

#### *2.2.7. Combining benefit receipt and employment/starting a new job*

If a recipient of LMS begins to work part-time (including irregular work with reduced working time), the LMS recipient is entitled to the adjusted LMS. The rules of adjusted

benefit calculation are the same as for earnings-related unemployment benefit (see Section 0). Note that both the usual income-test and the income-test of adjusted benefit due to earnings from part-time work are carried out. First, the amount of LMS after the usual income-test is calculated. Then, the calculated amount of LMS is reduced by earnings from part-time work according to the rules of adjusted LMS. Earnings from the part-time work are not included in the usual income-test.

### 3. Social assistance and housing benefits

There is a social assistance scheme (*Toimeentulotuki*) which guarantees a minimum income as deemed necessary for every inhabitant of the country. It is described in Section 3.1. In addition housing costs are covered through three income-tested schemes:

- General housing allowance (*Yleinen asumistuki*) available to families, couples and single people of limited means – see description in Section 3.2. ;
- Housing allowance for pensioners (*Eläkkeensaajien asumistuki*), available to pensioners of limited means - not considered in the model;
- Housing allowance for students (*Opiskelijoiden asumislisä**Please add*) - not considered in the model. Almost all students were transferred to the general housing allowance scheme on 1 August 2017

#### 3.1. Social assistance (*Toimeentulotuki*)

Code in the OECD tax-benefit model: [\[SA\]](#)

Social assistance is a last-resort social benefit paid by the local municipality. Since 1 January 2017 the basic social assistance is paid by Kela (The Social Insurance Institution of Finland). Local municipality still pays supplementary and preventive social assistance. Since 1 January 2008 there has been a single nation-wide basic standard (i.e. basic amount). Previously there were two municipality categories.

This is a non-contributory benefit, means-tested and not taxable.

##### 3.1.1. Eligibility conditions

For a person or a family that applies for social assistance a judgement and a calculation is made by Kela based on their available income, available assets and factual expenditure entitling to social assistance.

Expenditure that gives entitlement to social assistance consists of a basic amount plus an additional amount. If this combined amount is higher than the family's available net income and assets, the difference is paid in the form of social assistance.

The basic amount is designed to cover the costs of food, clothes, hygiene, transport, information and minor health care costs.

Additional allowance covers reasonable housing costs, home insurance, electricity, children's day care fees and significant health care costs, compensation for removal expenses, child day care expenses.

##### 3.1.2. Benefit amount

**Basic amounts:**

Family type	Rate (EUR per month)	% of single rate
Single	491.21	100
Lone parent (Since 2012)	540.33	110
Couple (per person)	417.53	85
Allowance per child:		
- Child over 18*	358.58	73
- Child 10-17	343.85	70
- Child under 10	309.46	63

\* Children aged 18 or over living with their parents constitute their own household when social assistance is calculated (i.e. they are subject to a separate means-test).

The basic amounts are generally updated according to changes in prices (National Pension Index). Even for years when National Pension Index has been frozen or reduced, social assistance has usually been updated separately.

**Reduced rates for children:** If there is more than one child (0 -17) in families the rates will be reduced. The rate of the second child will be 5 percentage points lower (e.g. 70% →65% or 63% →58% of the single rate). The rate of the third and subsequent children will be 10 percentage points lower (e.g. 70→60% or 63→53%).

**Additional allowance:** Other basic expenses which are taken into account up to a reasonable amount are housing expenses (e.g. rent or maintenance charge, water, heating, electricity and home insurance premium), other healthcare expenses (e.g. prescription medicines) as well as necessary moving expenses. Only housing costs for rented accommodation are considered in the model.

Kela may use their own discretion in setting the upper limit for reasonable housing costs in social assistance. In OECD calculations (non-binding) guidelines used by the city of Helsinki<sup>4</sup> are used. The table below contains the values considered as a reasonable rent for standard rentals in Helsinki in 2018.

Number of persons in household	Rent (EUR per month)
1	675
2	824
3	947
4	1038
5	1156
6	1274
7	1392
8	1510

<sup>4</sup> The limits of reasonable housing costs in Helsinki and in other municipalities of capital area are generally considerably higher than in other parts of Finland.

In addition to these amounts reasonable utility charges, household electricity and home insurance are covered separately as deemed necessary (*not included in the model*).

If social assistance is needed for a lengthy period, the client is obliged to seek more economical accommodation (*not included in the model*).

**Calculations:** To calculate the final social assistance benefit amount, the procedure is to compare the net income and available assets from all other sources (including regular housing benefits) to the “applicable” social assistance level. If this amount is higher than the family's net income, the difference is paid in the form of social assistance.

**Non-compliance:** The amount of social assistance may be reduced by maximum 20% if a person refuses to accept a work offer or does not participate in training or certain other activating or integration measures. Since 1 January 2011 it may also be reduced if 18-24 year old person without vocational education refuses to participate in education or drops out from education. If refusal is recurrent social assistance may be reduced by maximum 40%. (*These situations are not considered in the model*)

### 3.1.3. Benefit duration

As long as the means-test is satisfied and need for assistance prevails.

### 3.1.4. Means test

Usually all net income is included into the means-test with specific exceptions. The following cash benefits are disregarded (*most are not covered by the model*):

- maternity grant
- school transport subsidy
- disability allowance for children under 16 years of age
- disability allowance for persons aged 16 years or over
- care allowance for pensioners
- maintenance allowances related to rehabilitation and the rehabilitation allowance
- compensations for expenses related to unemployment benefits (e.g., travel and maintenance costs related to participation in employment promotion programmes)
- the supplementary amount of labour market subsidy and basic unemployment allowance (e.g. received during participation in activation measures)
- the difference between the increased earnings-related amount and the earnings-related amount of earnings-related unemployment allowances.

Taxes are deducted from the gross income.

Available assets are also included into the means-test (with some exceptions). Asset test is not covered by the model.

### 3.1.5. Tax treatment

The benefit is not taxable.

### 3.1.6. Interaction with other components of the tax-benefit system

In most cases household receiving social assistance have other income sources during the reciprocity period and social assistance is often paid to top-up other benefits.

### 3.1.7. Combining benefit receipt and employment/starting a new job

Since April 2005 a minimum of 20% of net earnings up to the maximum amount of EUR 150 (per family per month) is excluded from the income-testing. Since 1 January 2015 the rule is applied to all persons earning income in the family (i.e. at individual not family level).

## 3.2. General Housing Allowance (*Yleinen asumistuki*)

Code in the OECD tax-benefit model: [\[HB\]](#)

This is a non-contributory benefit, means-tested and not taxable.

A new Act on the general housing allowance became effective on 1 January 2015.<sup>5</sup>

### 3.2.1. Eligibility conditions

Assistance with housing costs is available for rental, right-of-occupancy, partial-ownership and owner-occupied homes. Rented accommodation is considered in the model.

### 3.2.2. Benefit amount

The general housing allowance amounts to 80% of the difference between the acceptable housing costs and the basic deductible. No housing allowance is paid if it is less than EUR 15 per month.

#### **Basic deductible:**

The amount of the basic deductible is affected by monthly gross income reduced by a possible earnings deduction (which depends on the number of adults and children in the household). The full rate of allowance (i.e. the case of zero deduction) is available on a monthly income of EUR 597 plus EUR 99 for each adult and EUR 221 for each child in the household. The calculation formula for the basic deductible is:

$$0.42 * [T - (597 + 99 * A + 221 * L)], \quad \text{where}$$

- T = the combined income of the household
- A = the number of adults
- L = the number of children.

Any basic deductible which is EUR 10 or less is disregarded.

The amounts used in the formula are usually adjusted annually in line with changes in the national pension index (except e.g. 2015, 2017 and 2018 when special rules of benefit cuts or freezing applied).

#### **Acceptable housing costs:**

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<sup>5</sup> As a result of the new Act the benefit amount is no longer affected by the year in which the building was built or renovated, the area or the heating system. The tables used to calculate the basic deductible based on the location of the housing and issued annually were replaced by a formula (same for all Finland). See more info here: <http://www.kela.fi/web/en/general-housing-allowance>.

There are statutory maximum limits on households' housing costs.<sup>6</sup> Any housing costs exceeding these limits are not recognised as housing costs. The limits vary by household size and location of the home. Maximum allowable housing costs (EUR per month) in 2018 are shown in the table below. Helsinki (category I) is used in the OECD calculations.

Household size	Municipality in category I	Municipality in category II	Municipality in category III	Municipality in category IV
1	508	492	390	344
2	735	706	570	501
3	937	890	723	641
4	1 095	1 038	856	764
+ each additional person	137	130	117	112
Municipalities in category I: Helsinki				
Municipalities in category II: Espoo, Kauniainen, Vantaa				
Municipalities in category III: Hyvinkää, Hämeenlinna, Joensuu, Jyväskylä, Järvenpää, Kajaani, Kerava, Kirkkonummi, Kouvola, Kuopio, Lahti, Lappeenranta, Lohja, Mikkeli, Nokia, Nurmijärvi, Oulu, Pori, Porvoo, Raisio, Riihimäki, Rovaniemi, Seinäjoki, Sipoo, Siuntio, Tampere, Turku, Tuusula, Vaasa and Vihti				
Municipalities in category IV: All other municipalities				

Since 2018 housing costs will be adjusted according to consumer prices (cost-of-living index). However, the adjustments were suspended in 2018, so the first adjustment will be carried out in 2019.

### 3.2.3. Benefit duration

Eligibility for the housing allowance is reviewed once a year. Special eligibility reviews are conducted in case of a change in circumstances.

### 3.2.4. Means test

The household's monthly income affects the amount of housing allowance. When calculating the amount of housing allowance, various social security allowances are converted into monthly income as follows:

- Unemployment allowances are converted into monthly income by multiplying them by 21.5. Unemployment allowance is paid for an average of 21.5 days per month.
- Other allowances, such as the sickness, maternity, paternity and parental allowances, are multiplied by 25 when estimating monthly income. (*not covered by the model*)

<sup>6</sup> In the model housing costs are chosen by the user. In standard TaxBEN outputs housing costs are assumed to be equal to 20% of average wage for all family types and income levels.

In housing allowance only full euros of income are taken into account in the income-test (rounded to nearest integer since 2015). E.g. if total household income from all income sources included in the income-test is EUR 1 065.79 then EUR 1 066 is taken into account in the income-test.

Since 2015 the asset limits were removed and the value of a person's assets no longer counts as income. However, income from assets continues to affect the amount of housing allowance recipients are entitled to. (*not covered by the model*)

### 3.2.5. Tax treatment

Benefit is not taxable.

### 3.2.6. Interaction with other components of the tax-benefit system

Housing allowance is included in the income-test of social assistance

The acceptable housing costs in housing allowance are in many municipalities lower than in acceptable housing costs social assistance.

### 3.2.7. Combining benefit receipt and employment/starting a new job

An earned-income deduction of EUR 300 per month was introduced on 1 September 2015. The deduction is made on each household member's total income from paid work and self-employment. The deduction applies to all recipients of general housing allowance who have earned income.

Since 1 March 2006 the income test due to an increase in income has been suppressed for three months for re-employed persons who have been receiving labour market subsidy or basic unemployment allowance continuously for 12 months or more. The three months suppressed income review period was temporarily extended to six months in 2013-2014 (originally 2013-2015, but due to the reform of housing allowance in 2015 the rule was abolished).

## 4. Family benefits

### 4.1. Child benefit (*Lapsilisä*)

Code in the OECD tax-benefit model: [\[FAMBEN\]](#)

This is a universal benefit: non-contributory, not means-tested and not taxable.

#### 4.1.1. Eligibility conditions

Child Benefit is paid for children under 17 who are living in Finland.

#### 4.1.2. Benefit amount

The amount of the benefit depends on the number of eligible children in the household. Single parents get a monthly increase of EUR 53.30 per child (Since 2018). The rates of child benefit (since 1 January 2017) are:

	Rate per child (EUR per month)
1st child	94.88
2nd child	104.84
3rd child	133.79
4th child	153.24
5th and subsequent	172.69

Since 1 March 2011 the rates were adjusted annually by the price index. The index adjustment of child benefit was suppressed in 2013-2015. Since 1st January 2016 the index adjustment of child benefit was abolished.

#### 4.1.3. *Benefit duration*

As long as the eligibility conditions hold.

#### 4.1.4. *Means test*

The benefit is not means-tested.

#### 4.1.5. *Tax treatment*

The benefit is not taxable.

#### 4.1.6. *Interaction with other components of the tax-benefit system*

The benefit is universal and can be received together in any other benefit. Child benefit is included in the income-test of social assistance.

#### 4.1.7. *Combining benefit receipt and employment/starting a new job*

The benefit is universal; employment doesn't affect benefit receipt.

### 4.2. *Maintenance allowance (Elatustuki)*

Code in the OECD tax-benefit model: [\[MAINT\\_S\]](#)

This is a non-contributory benefit, not means-tested and not taxable.

#### 4.2.1. *Eligibility conditions*

A child of a lone-parent receives maintenance allowance when the person liable to pay maintenance payment neglects this duty. A child is entitled to maintenance allowance even when the paternity has not been confirmed. Child maintenance allowance is payable up to the time when the child reaches the age of 18, but payment may end earlier if maintenance liability ends or if other liability criteria are no longer met.

#### 4.2.2. *Benefit amount*

The maintenance support is EUR 156.39 per child per month in 2018.

#### 4.2.3. *Benefit duration*

As long as the eligibility conditions hold.

#### 4.2.4. *Means test*

Not means-tested. However, maintenance allowance also can be paid as a top-up if the parent liable for maintenance pays lower than the amount of child maintenance allowance.

#### 4.2.5. *Tax treatment*

Non-taxable.

#### 4.2.6. *Interaction with other components of the tax-benefit system*

The benefit can be received together with any other benefit. It is included in the means - test of social assistance, home-care allowance and day care fees. In other means -tested benefits covered here it is disregarded.

#### 4.2.7. *Combining benefit receipt and employment/starting a new job*

Employment doesn't affect benefit receipt.

## 5. Early childhood education and care for pre-school children (ECEC)

The **reference date** for the policy rules described in this section is **1 January 2018**.

All children under school-age have a subjective right to a place in early childhood education and care (ECEC) provided by their local authority. From 1 August 2016 this subjective right was restricted to 20 hours per week. ECEC is available on a full-time basis for children whose parents are working or studying full time. ECEC is also available on a full-time basis for children, who are considered to benefit from ECEC for pedagogical or social reasons.

As an alternative parents can choose to look after the child themselves with the help of the child home care allowance, or choose the private day care allowance and arrange for child care privately. Pre-primary education for 6-year old children became compulsory from 1 August 2015. Pre-primary education is free of charge. ECEC is provided part-time and full-time; also can be provided around the clock when needed. ECEC can also be organized for children of school age but mostly school-aged children participate in after-school activities. Public ECEC may be organized centre-based or as municipal family day care.

### 5.1. *Gross fees for ECEC*

Code in the OECD tax-benefit model: [\[FNcc\\_cost\]](#)

The public ECEC fees are income related; the higher the family income, the higher the fee. The fee is a portion (%) of the family income exceeding the income limit until the maximum amount is reached. These limits and percentages depend on family size. In addition to parents children under 18 are included in the family definition. Public ECEC fees valid since 1 January 2018 are shown in the table:

Family size, persons	Income limit (EUR per month)	% of income exceeding the limit
2	2050	10.7
3	2646	10.7
4	3003	10.7
5	3361	10.7
6	3718	10.7

If the family size is over 6 persons EUR 138 is added to income limit for each additional person. The amounts and income limits were revised on 1 August 2014 and 2016 according to indexation rules. According to the rules the revision is made every two years. The next revision will take place 1 August 2018.

#### *5.1.1. Discounts for part-time usage (not modelled)*

The fees are regulated according to the time spent in ECEC. If the child attends ECEC at the maximum 20 hours a week the fee can be no more than 60% of the calculated maximum fee for the child. The maximum fee can be collected if the child attends 35 hours or more per week. The municipalities should adjust the fee in case that the child's time spent in ECEC is between 20 – 35 hours a week. The fees for the third and subsequent children are calculated in relation to the full-time equivalent fee of the first child even if the first child only uses part-time ECEC.

### **5.2. Fee discounts and free provision**

#### *5.2.1. Eligibility*

Fees are lower for low-income families. There are discounts for multiple children. See 5.1 and 5.2.2.

#### *5.2.2. Amount of discount or free provision*

If there are more than one child in the same family in the public ECEC, the fee for the second child is 50% of the fee for the first child. If there are more than two children in the same family in the public ECEC, the fees for the third and subsequent children are 20% of the fee for the first child. The maximum fee is EUR 290 per child per month. If the ECEC fee for a child amounts to less than EUR 27 it is not collected.

#### *5.2.3. Variation by income*

The higher the family income, the higher the fee (see Section 5.1. ).

Income definition in the income-test of the ECEC: All income (gross) except certain benefits and grants. Of the benefits that are disregarded child allowance, home care allowance, housing allowance and social assistance are relevant here. If family pays maintenance payment to other household this is deducted from the income. Note that both maintenance allowance and received maintenance payment are included in income. However, they are only included in the calculation of the fee for the child that they are paid for.

### 5.3. *Child-care benefits for formal centre-based care*

Code in the OECD tax-benefit model: [\[cc\\_benefit\]](#)

There are no such benefits in Finland. The use of ECEC in centre-based care is supported with ECEC fee structure. The fees cover only small part of the costs (11%).

### 5.4. *Child care allowance for children not using child care centers*

For families with children under 3 years old who do not use public ECEC, there is a home care allowance (*lasten kotihoidon tuki*), which includes a care allowance and a care supplement. In addition to the home care allowance, there is private day care allowance (*lasten yksityisen hoidon tuki*) for those who use private ECEC for children under 7 years old (not modelled). Since 1.4.2007 it has been possible for family to receive private day care allowance and home care allowance simultaneously (i.e. private day care allowance for a child in ECEC and home care allowance for another child not using public ECEC or private ECEC).

Code in the OECD tax-benefit model: [\[hc\\_benefit\]](#)

#### 5.4.1. *Eligibility conditions*

**Home care allowance:** Parents are entitled to the child home care allowance if at least one child is less than 3 years old and a parent or any other person (e.g. grand-parent, private baby-sitter) takes care of the child at home. Child home care allowance can also be paid for other siblings (under school age) of the under 3-year-old child who is looked after at home. In addition, the allowance is paid for any other children under the age of 7 and not in any subsidized day care. Payment of the allowance ends at the latest when the family's youngest child reaches the age of 3 years.

**Private day care allowance** can be claimed by a family whose under-school-age child is looked after by a nanny hired by the family or by a private ECEC provider.

The private day care allowance is paid directly to service provider. The allowance is not paid if a relative or some other individual looks after the child without a formal employment contract or charges no fee for his/her services.

#### 5.4.2. *Benefit amount*

Since 1 March 2011 rates for home and private care allowance have been adjusted annually by index (100% prices, National Pension Index). This is normally carried out on 1 January. The price indexation does not cover income limits.

**Home care allowance** is EUR 338.34 per month for the first child under 3 years old, EUR 101,29 per month for other children under 3 years old and EUR 65.09 per month for children between 3 and 6 years old (i.e. under school age).

**Home care supplement** is income-tested. The maximum amount is EUR 181.04 per month and it is payable for only one child. Since 1.3.2017 maintenance allowance and maintenance payment have been included in the income test. However, only the maintenance allowance and maintenance payment for children that home-care allowance is paid for are included in the income-test.

**Private day care allowance** consists of a basic allowance and an income-tested supplement, which both are paid for each eligible child. Since 1 August 2016, for children who have a right to more than 20 hours of early childhood education per week, care

allowance is EUR 172.25 per month per child and care supplement is up to EUR 144.85 per month per child. For children who have a right to a maximum of 20 hours of early childhood education per week, care allowance is EUR 63.38 per month per child and the care supplement is paid at half rate. The income limits and the rate at which private day care supplement is reduced are the same as in home care allowance (see Section 5.4.4. ).

### **Municipality supplements:**

Some municipalities, especially in the metropolitan area, pay additional supplements to home care and private day care allowances. The rates and eligibility rules vary.

The rates of municipal Helsinki **supplement for home care allowance** in 2018:

- EUR 264.00 per month if there is a child under 1.5 years old in family
- EUR 218.64 per month if there is a child 1.5-2 years old (excluding)
- EUR 134.55 per month 2 years old (but under 3 years).

The municipal Helsinki supplement for home care allowance is paid for the family, i.e. only for the youngest child.

The rates of municipal Helsinki **supplement for private day care allowance** (*not modelled*) in 2018 (EUR per month):

Type of child care	Child's age	Supplement (EUR per month)
Institutional private ECEC	under 3 years old	600
	3 years old or older	330
Private family day care	under 3 years old	300
	3 years old or older	160
Day care by childminder with labor contract	under 3 years old	500
	3 years old or older	160

The private day care Helsinki supplement is paid for each child. The supplement is paid only for full-time care (20 hours or more per week). There is an additional supplement of EUR 60 per family for those families who receive income-tested private day care allowance supplement.

### *5.4.3. Benefit duration*

As long as the conditions are satisfied.

### *5.4.4. Means test*

The **home care supplement** and **private day care supplement** decrease as the income exceeding income limit increases (2018).

Family size (parents + children < 7, max 2)	Income limit (EUR per month)	Reduction of care supplement, % of income exceeding income limit
2	1 160	11.5
3	1 430	9.4
4	1 700	7.9

When the family type is determined, only children entitled to ECEC are included with maximum of two children (i.e. children under school age after the parenthood period of parents irrespective of their actual use of ECEC). There is no similar income disregard for additional children as with ECEC fees. Otherwise the definition of income is similar with ECEC fees with same benefits disregarded.

#### 5.4.5. Tax treatment

Child home-care allowance is taxable income.

The private day care allowance is taxed as the income of the service provider.

#### 5.4.6. Interaction with other components of the tax-benefit system

If the recipient of home care allowance is not personally taking care of the child and the spouse receives unemployment benefit the home care allowance is deducted from the unemployment benefit. If the recipient of home care allowance is personally taking care of the child the allowance is not deducted from the spouses unemployment benefit.

#### 5.4.7. Combining benefit receipt and employment/starting a new job

A father or mother who participates in the care of a child under 3 years of age and works no more than 30 hours per week on average may be entitled to a **flexible care allowance** (*not modelled*).

The flexible care allowance can be paid to:

- the father, mother or other provider of a child under 3 years of age
- both parents at the same time if they make work arrangements that allow them to look after the child at different times
- a parent who does not live in the same household as the child.

The flexible care allowance can be paid to a parent who:

- works no more than 30 hours per week on average or no more than 80% of normal full-time hours
- has an employment contract with a public- or private-sector employer
- is an insured self-employed or a farmer
- is an insured grant recipient.

The flexible care allowance cannot be paid to a parent who:

- is paid special maternity, maternity, paternity or parental allowance
- looks after the child personally and is paid home care allowance.

It is possible to use public day care or receive private day care allowance simultaneously with flexible care allowance.

The amount of the flexible care allowance is (2018):

- EUR 241.19 per month if the recipient works no more than 22.5 hours per week or no more than 60% of normal full-time hours
- EUR 160.80 per month if the recipient works more than 22.5 hours or more than 60% but no more than 80% of normal full-time hours.

Parents of first- and second-graders (usually 7-8 years old) are entitled to partial care Allowance. The allowance amounts to EUR 96.89 per month (2018).

### 5.5. Tax concessions for childcare expenditures

There are no tax concessions for childcare expenditures.

## 6. In-work benefits

### 6.1. Earned income allowance (*Kunnallisverotuksen ansiotulovähennys*)

Low income earners in Finland are eligible for an earned income allowance. See Section 8.2.1. The reduction in taxes and social insurance contributions due to earned income allowance is considered in the OECD model as an “in-work benefit” [IW].

Code in the OECD tax-benefit model: [TaxChange\_p, TaxChange\_s, SSCChange\_p, SSCChange\_s]

### 6.2. Earned income tax credit (*Työtulovähennys*)

Earned income tax credit is considered in the OECD model as an “in-work benefit” [IW]. See description in Section 8.1.4. )

Code in the OECD tax-benefit model: [TC\_p, TC\_s]

## 7. Social security contributions and payroll taxes

### 7.1. Employee social security contributions (*Työntekijän sosiaalivakuutusmaksut*)

Variable names: [SS\_AL\_p, SS\_AL\_s, SOCSEC\_MED\_p, SOCSEC\_MED\_s]

There are four social contributions for employees:

- Earnings-related pension contribution
- Unemployment insurance contribution
- Daily allowance contribution
- Medical care contribution.

Employees’ **pension insurance** contribution amounts to 6.35% of gross salary for those who are under 53 years old and 7.85% for those who are 53 years old or more.

Employees’ **unemployment insurance** contribution equals to 1.9% of gross salary.

The financing of the National Health Insurance underwent a major change on 1 January 2006 with the splitting up of the scheme into two components: earned income insurance for daily allowance and medical care insurance.

The contribution base of the earned income contribution for health insurance (for **daily allowance**) is gross earnings. In 2018 the rate is 1.53% of gross wage. If gross annual earnings are below EUR 14020 no contribution is payable.

The tax base for the health insurance contribution for **medical care insurance** is net taxable income for municipal income tax purposes. In 2018, the rate of the health insurance contribution for medical care insurance is 0%. There is additional 1.53% contribution for those incomes that earned income contribution for health insurance is not payable (e.g. pensions, daily allowances). The income base for additional contribution is the difference between taxable income for municipal income tax purposes and earnings for earned income contribution for health insurance (i.e. gross wage here). If earnings for earned income contribution for health insurance are higher than taxable income for municipal income tax purposes then there is no additional contribution.

Pension, unemployment and daily allowance contributions are fully deductible in taxation.

## *7.2. Employer social security contributions (Työnantajan sosiaalivakuutusmaksut)*

Variable names: [\[SSCR\\_p, SSCR\\_s\]](#)

The average rate of the employers' statutory social insurance contributions in 2018 was 21.39% of gross wage (private sector employers).

## 8. Taxes

The tax system consists of a central government tax and a local government tax. Spouses are taxed separately for earned income. In January 2013 a new public broadcasting tax was introduced.

### *8.1. Central government income tax (Valtion tulovero)*

Code in the OECD tax-benefit model: [\[INCTAX\\_FIN\\_p, INCTAX\\_FIN\\_s\]](#)

#### *8.1.1. Tax allowances*

**Work-related expenses:** a standard deduction for work related expenses equal to the amount of wage or salary, with a maximum amount of EUR 620 is granted.

**Other:** Pension, unemployment and daily allowance contributions are fully deductible.

#### *8.1.2. Tax base*

The tax base is calculated as employment income minus tax allowances.

### 8.1.3. Income tax schedule

Central government income tax:

Taxable income (EUR per year )	Tax on lower limit (EUR )	Tax on excess income in bracket (%)
17 200 – 25 700	8	6.00
25 700– 42 400	518.0	17.25
42 400 – 74 200	3 398.75	21.25
74 200 and above	10 156.25	31.25

### 8.1.4. Tax credits

**Earned income tax credit:** An earned income tax credit is granted against the central government income tax. If the credit exceeds the amount of central government income tax, the excess credit is deductible from the municipal income tax and the health insurance contribution for medical care. The credit is calculated on the basis of taxpayers' income from work. The credit amounts to 11.8% of the income exceeding EUR 2 500 (per year), until it reaches its maximum of EUR 1 540. The amount of the credit is reduced by 1.65% of the earned income (earned income = non-capital income including also pensions, daily allowances) minus work related expenses exceeding EUR 33 000 per year. The credit is fully phased out when taxpayers' income is about EUR 128 000.

In the model earned income tax credit is considered an “in-work benefit” [IW], see Section 6.2.

**Child tax credit:** It was a temporary policy (2015-2017) which was discontinued in 2018.

## 8.2. Local government income tax (*Kunallisvero*)

Code in the OECD tax-benefit model: [LOCTAX\_p, LOCTAX\_s]

Municipal tax is not deductible against central government taxes.

### 8.2.1. Tax allowances

**Work related expenses:** are deductible in the same way as in central government income tax.

**Earned income allowance:** is calculated on the basis of taxpayer's income from work (income from work = wages and salaries and non-capital entrepreneurial income). The allowance amounts to 51% of income between EUR 2 500 and EUR 7 230, and 28% of the income exceeding EUR 7 230, until it reaches its maximum of EUR 3 570. The amount of the allowance is reduced by 4.5% on earned income minus work related expenses exceeding EUR 14 000 (earned income = non-capital income including also pensions, daily allowances).

**Basic allowance:** is granted on the basis of taxable income remaining after the other allowances have been subtracted. The maximum amount, EUR 3 100, is reduced by 18% on income exceeding the aforementioned amount.

**Other:** Pension, unemployment and daily allowance contributions are fully deductible.

### 8.2.2. *Tax base*

The tax base of the local income tax is taxable income as established for the income tax levied by central government.

### 8.2.3. *Income tax schedule*

The municipal tax is levied at flat rates. In 2018 the tax rate varies between 17% and 22.5%, the average rate being approximately 19.86%. The average tax is simulated in the model.

### 8.2.4. *Tax credits*

If earned income tax credit and child tax credit exceed the amount of central government income tax they are deductible from the municipal income tax and the health insurance contribution for medical care.

## 8.3. **Broadcasting Tax** (*Yleisradiovero*)

Variable names: `[brdcst_tax_p, brdcst_tax_s]`

In January 2013 a new public broadcasting tax was introduced to finance the activity of the national public service broadcasting company. Since 2018 the tax is 2.5% on the part of taxable earned income and capital income exceeding 14 000 EUR per year, the maximum is EUR 163 per year.