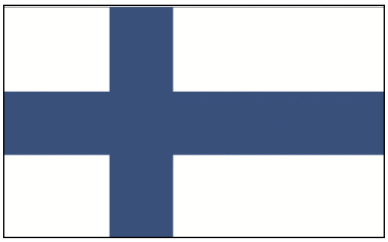
THE OECD TAX-BENEFIT MODEL FOR FINLAND

Description of policy rules for 2020



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BETTER POLICIES FOR BETTER LIVES

THE OECD TAX-BENEFIT MODEL FOR FINLAND
Description of policy rules for 2020

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BETTER POLICIES FOR BETTER LIVES

Directorate for Employment, Labour and Social Affairs, Jobs and Income Division

www.oecd.org/social/benefits-and-wages

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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 **1 January 2020**.
- **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.
- COVID-related measures are provided in blue font. These measures have been introduced after the reference policy date, 1 January 2020, and are not included in the model.
- Sickness benefits and Short-time work schemes described in Sections 9 and 10 are not included in the model.

The OECD tax-benefit model for Finland: Policy rules in 2020

1. Reference wages

Average wage **[AW]**: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available here)[1]. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth[2] to the latest available wage estimate.

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:[3] **[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.

[1] Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

[2] Wage growth projections are based on OECD Economic Outlook and EU economic forecasts (for non-OECD countries).

[3] 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 1 236 per month (2020). The former is assumed in the model.

During the Covid-19 emergency, the required period of employment for wage-earners was shortened: 13 calendar weeks instead of the 26 calendar weeks. The Act entered into force on 15 April 2020 and will remain in force until 31 December 2020 (originally until 6 July 2020, later extended to 31 December 2020). The amendment will be applied retroactively, starting on 16 March 2020.

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.[4]

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 33.66 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 * basic benefit / 21.5 = EUR 148.73 per day.

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

1. Monthly earnings (M) = gross earnings in the reference year / 12.5

[4] Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018), Langenbucher (2015) and Venn (2011).

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. Daily earnings (D) = M / 21.5

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

3. Daily reference earnings (DRE) = D * 95.86%

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	5.28
2 children	7.76
3 or more children	10.00

*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: In 2020, the activity requirement (introduced in 2018) was abolished. For more information on the former activity requirement, see the policy description for Finland 2019.

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).

Due to Covid-19, the waiting period for unemployment benefits was abolished. Unemployment benefits paid on the grounds of layoffs will not be taken into account when calculating the maximum period of earnings-related payment. The Act entered into force on 15 April 2020 and will remain in force until 31 December 2020 (originally until 6 July 2020, later extended to 31 December 2020). The amendment will be applied retroactively, starting on 16 March 2020. Between 1 July and 31 December 2020 this was extended to all earnings-related unemployment benefits (i.e. also benefits paid on the other ground than layoffs).

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"). *This is not covered in the model.*

Persons born in 1955-1956 /1957-1960 /1961 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 60 / 61 / 62 before the 500 days have accrued.

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 (changed on 1 January 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.

During the Covid-19 emergency, there is a temporary increase in disregard for unemployment benefits payable between 1 June 2020 and 31 October 2020 (government proposal to extend to 31 December 2020). For benefits payable for this period the disregard is EUR 500 per month.

Persons working shortened work week with correspondingly reduced wage (80% or 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 80% or less than 80% of regular working-time (they will receive adjusted unemployment benefit for each day if daily working time is <= 80%). 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 January 2010 and 1 January 2012. Since 1 January 2012, the rule was introduced as permanent legislation. *(Not covered by the model; a uniform reduction of time across days is assumed)*

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 4.79 per day (5 days per week). *(not covered by the model)*

Activity requirement: In 2020, the activity requirement (introduced in 2018) was abolished. For more information on the former activity requirement, see the policy description for Finland 2019.

Due to Covid-19, a temporary LMS for self-employed persons was introduced. Self-employed persons can receive LMS, if at least one of the following requirements is met:

- Full-time employment in the business has ended due to the outbreak.

- The income from self-employment is, because of the epidemic, less than EUR 1 089.67 per month.

  The Act entered into force on 8 April 2020 and will remain in force until 31 December 2020 (originally until 30 June 2020, later extended to 31 December 2020). The amendment will be applied retroactively, starting on 16 March 2020.

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

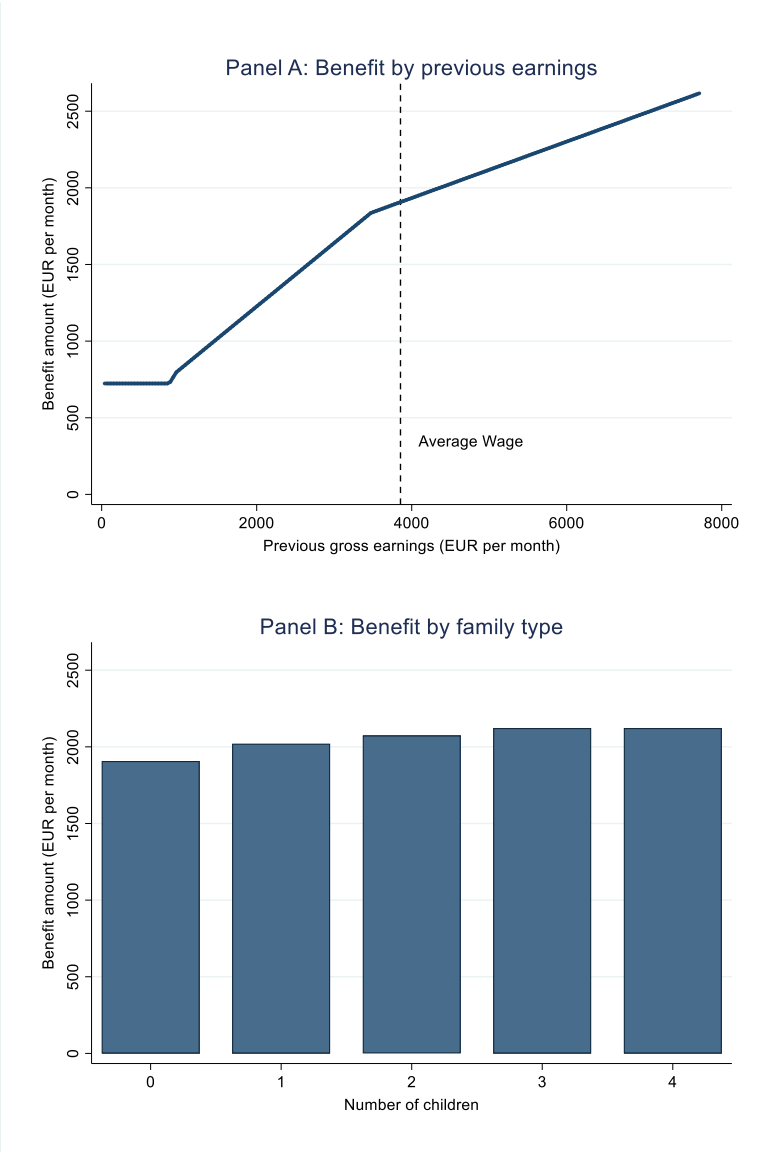
In addition to unemployment benefit a person/household may receive housing allowance and also social assistance as a top-up to other benefits.

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.

Figure 1. Earnings-related unemployment allowance

40-year old single persons



Note: Benefit amount does not depend on whether a person is single or lives in a couple. However, there are supplements for children. If both parents are unemployed, both of them are eligible to supplements for children. Results assume long and continues previous employment record. Panel A shows benefit amount for a single person without children by previous gross earnings. Paned B shows benefit amount by number of children for a person with previous earnings at the average wage.
Source: OECD Tax-Benefit Model.

Figure 2. Unemployment benefits

Single person without children

Note: The figure shows amounts and duration of earnings-related unemployment allowance and labour market subsidy received by a person with different past employment record and previous earnings at the average wage. Four cases (0, 6, 36, and 60 months of previous employment record) are selected to show different outcomes. For the last case, it is assumed that a person is at least 58 years old, i.e. eligible for a longer duration of earning-related unemployment allowance. Persons with employment record below 6 months are not eligible to earnings-related unemployment allowance, but can receive labour market subsidy. The maximum duration shown in the figure is 30 months, but labour market subsidy can be received longer if eligibility conditions are met. The calculations are based on the policy rules as of 1 January 2020.
Source: OECD Tax-Benefit Model.

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 *(Eläkkeensaajan asumistuki)*, available to pensioners of limited means - not considered in the model;
- Housing allowance for students *(Opintotuen asumislisä)* - 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 other basic expenditure. 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.

Other basic expenditure consists of reasonable housing costs, home insurance, electricity, children's day care fees, significant health care costs, compensation for removal expenses, expenditure on meeting a child with a parent living in a different household and the acquisition costs of the necessary identity card, residence document or travel document.

3.1.2. Benefit amount

Basic amounts in 2020:

Family type	Rate (EUR per month)	% of single rate
Single	502.21	100
Lone parent	572.52	114
Couple (per person)	426.88	85
Allowance per child:		
- Child over 18*	366.61	73
- Child 10-17	351.55	70
- Child under 10	316.40	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 uprated 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 uprated 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%).

Other basic expenditure 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[5] are used. The table below contains the values considered as a reasonable rent for standard rentals in Helsinki and capital area in 2020.

Number of persons in household	Rent (EUR per month)
1	694
2	844
3	964
4	1057
5	1175
6	1293
7	1411
8	1529

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

[5] 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.

For a shorter period of time even amounts above may be covered. According to Kela guidelines, client household has usually 3 months to find more affordable housing. During that time housing costs may be covered as such *(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)*

During the Covid-19 emergency, municipalities were given special guidelines to grant supplementary and preventive social assistance (prioritizing those without other incomes) and not to apply reductions of social assistance due to non-compliance (e.g. person refuses to accept a work offer or does not participate in training or certain other activating or integration measures due to epidemic). The municipalities can use their own discretion to set these supplementary amounts.

Due to Covid-19, a temporary compensation to basic social assistance clients due to epidemic is introduced. Eligibility conditions: Household has received basic social assistance sometimes during the period from 1 March to 31 July 2020 and is receiving basic social assistance for a month in the period from 1 August to 30 November 2020. The temporary compensation will be paid during next months. For example, if a household has received basic social assistance in April 2020 and receives basic social assistance continuously from August to November 2020, it will receive compensation in September, October, November and December. If household has received basic social assistance in latter period only, e.g. in September, it will receive compensation only in October. Last compensations will be paid in December 2020. The amount is EUR 75 per month for each household member (based on the number of household members in the previous month when basic social assistance was granted). The compensation is non-taxable, it is excluded from income-tests of other benefits.

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 *(not covered by the model)*:

- minor grants
- regular and slightly higher income for a person under the age of 18, insofar as they exceed his or her basic share and other basic expenses attributed to him or her
- maternity allowance
- disability benefits (disability allowance for persons under 16 years of age, disability allowance for persons aged 16 years or over and care allowance for persons receiving a pension)

- maintenance allowances under the Act on Rehabilitation and Rehabilitation Benefits
- expenditure compensation referred to in the Act on Unemployment Security and Public Employment and Business Services
- the reimbursement of expenses for participating in rehabilitative work or, instead, the amount of operating money and compensation for journeys to rehabilitative work
- increase in labour market support and basic daily allowance *(note that supplements for children are included in the means test)*
- difference between the increased earnings component and earnings component of earnings-related daily allowance
- income obtained as compensation or income from a benefit, the costs of which are also not taken into account
- school travel allowance
- school supplies appropriation (rehabilitation)
- study grant learning material supplement (as of 1 August 2019)
- income to the extent that it corresponds to commuting expenses and other expenses arising from commuting
- financial support under the Child Welfare Act *(this is financial support that municipality may grant under special circumstances, it is not covered in the model; the "standard" child benefit described in Section 4.1. and maintenance allowance described in Section 4.2. are included in the means test)*

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

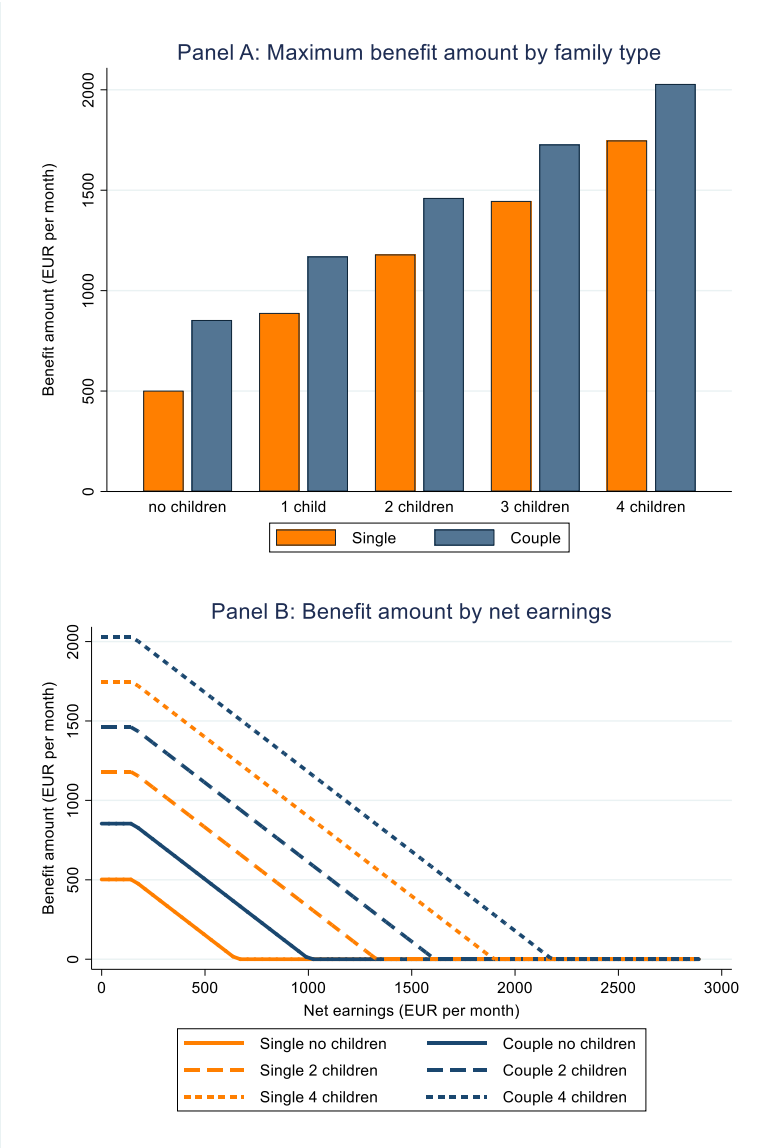
In most cases household receiving social assistance have other income sources during the recipiency period and social assistance is often paid to top-up other benefits.

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 means test. Since 1 January 2015, the rule is applied to all persons earning income in the family (i.e. at individual not family level). Since June 2018 100% of net earnings up to the maximum amount of EUR 150 are excluded from the means test (e.g. if person has EUR 200 of earnings EUR 150 are disregarded). This new rule is implemented in the model in 2019.

Figure 3. Social assistance

40-year old single person and couple with or without children



Note: Results assume no receipt of housing benefit, unemployment benefits or any other benefits, which are usually included in the means test for social assistance. Housing costs are assumed to be zero, i.e. calculations do not include supplement for housing costs in social assistance. Children are 4, 6, 8, and 10 years old. Panel A shows maximum amount of social assistance for a jobless family with no income. Panel B shows the reduction in the amount as one adult starts working.
Source: OECD Tax-Benefit Model.

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.[6]

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 603 plus EUR 100 for each adult and EUR 223 for each child in the household. The calculation formula for the basic deductible is:

$$0.42 * [T - (603 + 100 * A + 223 * L)], \quad \text{where}$$

- 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, 2018 and 2019 when special rules of benefit cuts or freezing applied).

Acceptable housing costs:

There are statutory maximum limits on households' housing costs.[7] 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 2020 are shown in the table below. Helsinki (category I) is used in the OECD calculations.

[6] 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.

[7] 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.

Household size	Municipality in category I	Municipality in category II	Municipality in category III	Municipality in category IV
1	520	503	399	352
2	752	722	583	513
3	958	910	740	656
4	1120	1062	876	781
+ each additional person	140	133	120	115
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 have been adjusted according to consumer prices (cost-of-living index). However, the adjustments were suspended in 2018, so the first adjustment were 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)*

In housing allowance only full euros of income are taken into account in the income-test (rounded to nearest integer since 2015). For example, 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.

In many municipalities, the acceptable housing costs in housing allowance are lower than the acceptable housing costs in social assistance.

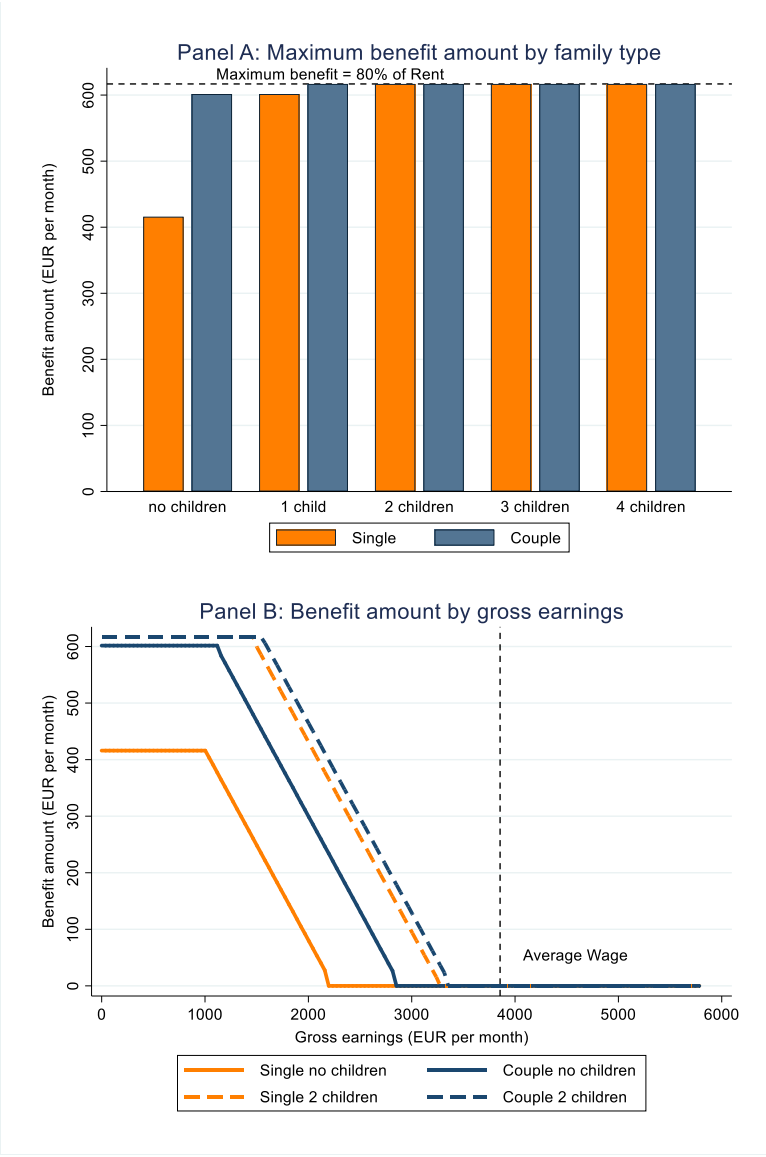
3.2.7. Combining benefit receipt and employment/starting a new job

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).

Figure 4. General Housing Allowance

40-year old single person and couple with or without children



Note: Results assume no receipt of unemployment benefits or other benefits, which are usually included in the means test for housing allowance. Rent is assumed to be 20% of average wage for all family types. The benefit cannot exceed 80% of the rent. Family is assumed to live in Helsinki. Panel A shows the maximum benefit amount for a jobless family with no income. Panel B shows the reduction in benefit amount as one adult starts working.
Source: OECD Tax-Benefit Model.

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.

Single-parent supplement is paid to a parent living with the child. The parent cannot be married or living together and has to be legally separated from his/her spouse. The supplement is available also if the parents have joint custody of their child.

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 63.30 per child. The rates of child benefit (since 1 January 2020) are:

	Rate per child (EUR per month)
1st child	94.88
2nd child	104.84
3rd child	133.79
4th child	163.24
5th and subsequent	182.69

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 1 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 167.01 per child per month in 2020.

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

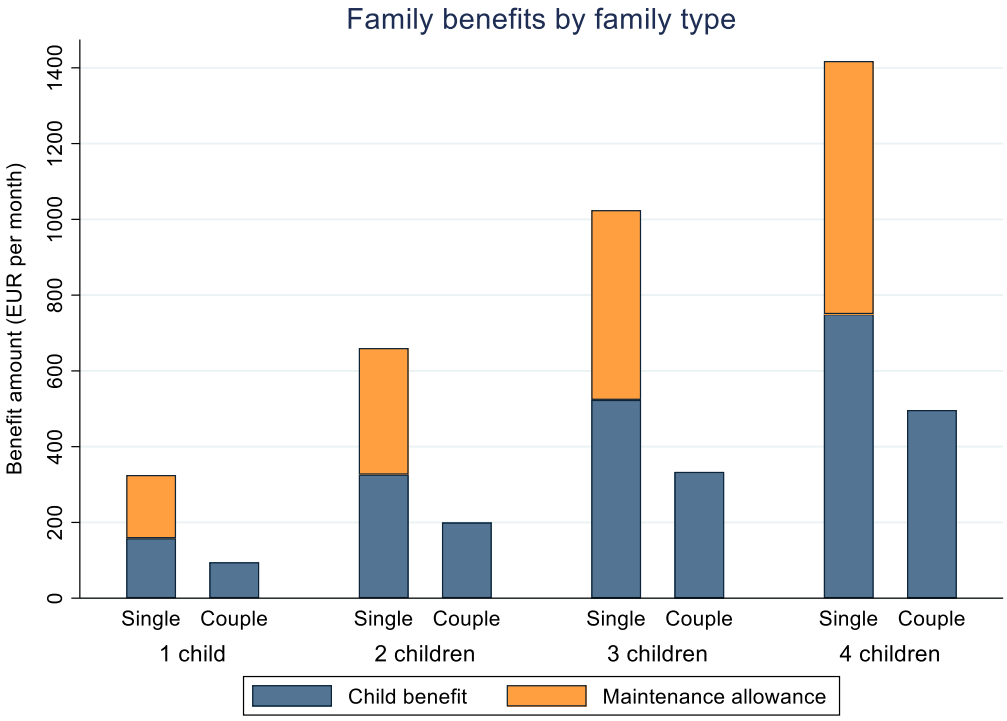
The benefit can be received together with any other benefit. It is included in the means - test of social assistance, home-care allowance and day care fees. In other means-tested benefits covered here it is disregarded.

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

Employment doesn't affect benefit receipt.

Figure 5. Family benefits

40-year old single person or couple with children



Note: The figure shows maximum family benefit amounts. Benefits are universal and do not depend on family income. Children are 4, 6, 8, and 10 years old.
Source: OECD Tax-Benefit Model.

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **1 January 2020.**[8]

All children under school-age (7) 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 in some municipalities. 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. Since 1 August 2020, the restriction are abolished.

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 typically lasts four hours a day and 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.

The model covers childcare fees for children from one year to five years old (up to the age when the compulsory pre-primary education starts).

5.1. Gross fees

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 rules for maximum fees that municipalities can charge are set at the national level. The fee is paid for each child using ECEC with lower fees for the second and subsequent children (see Section 5.2.2). The fee is a portion (%) of the family income exceeding the income limit until the maximum amount is reached (for maximum amounts see Section 5.2.2). 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 August 2018 are shown in the table:

Family size, persons	Income limit (EUR per month)	% of income exceeding the limit
2	2102	10.7
3	2713	10.7
4	3080	10.7
5	3447	10.7
6	3813	10.7

If the family size is over 6 persons EUR 142 is added to income limit for each additional person. The amounts and income limits were revised on 1 August 2014 and 2016

[8] On 1 August 2020, the policy rules changed. The main changes are: the abolition of 20 hours restriction on childcare rights and index adjustments for day care fee income limits and fees (see more information: https://minedu.fi/en/client-fees-ecec). The government proposes to reduce childcare fees in 2021.

according to indexation rules. According to the rules, the revision is made every two years. The next revision will take place on 1 August 2020.

5.1.1. Discounts for part-time usage

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. Each municipality decides on how to adjust the fee in case the child´s time spent in ECEC is between 20 – 35 hours a week. In Helsinki, 80% of the maximum fee can be charged if a child attends more than 20 hours but less than 35 hours, and 100% if a child attends 35 hours or more. 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. The fees for the second and the subsequent children are also adjusted according to the number of hours they attend the childcare.

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 Section 5.1 and Section 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 (full-time) 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 (full-time) fee for the first child. Since 1 August 2018 the maximum fee has been EUR 289 per child per month (note that the maximum fees for the second and subsequent children are lower, 50% or 20% of EUR 289 respectively). If the ECEC fee for a child amounts to less than EUR 27 per month it is not collected. The discounts for the second and subsequent children are set at the national level.

5.2.3. Variation by income

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

The following income definition is used in the income-test to calculate the ECEC fees: All gross income except certain benefits and grants. Of the benefits described in this report, child allowance, home care allowance, housing allowance and social assistance are excluded from the income definition. If a family pays maintenance payment to another household, it is deducted from the income. Note that both maintenance allowance and received maintenance payment are included in the income definition. However, they are only included in the calculation of the fee for the child that they are paid for.

Technical note: In practice, the fees are calculated following these steps:

1) The full-time fee for the first child is calculated according to the income and disregards (see table in Section 5.1)

2) The maximum fee limit (EUR 289) is applied.

3) The full-time fees for siblings are calculated based on (2) and applying discounts for siblings (Section 5.2.2)

4) Fees for all children are adjust for the hours of attendance (Section 5.1.1)

5) Fees below the minimum (EUR 27) are set to zero.

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 overall costs (11%).

During the Covid-19 emergency and partial **closures of schools and ECEC**, parent employees taking unpaid leave to care for a child who normally would be in early childhood education, pre-primary education, or 1st-3rd grades of primary education (7-9 years old) are entitled to a "Temporary financial assistance due to an epidemic outbreak" *(Laki koronavirusepidemian vuoksi palkatta työstä poissa olevalle maksettavasta väliaikaisesta tuesta, unoffcially Väliaikainen epidemiatuki)*. Only one parent can receive the benefit. The benefit is paid at a flat-rate of EUR 28.94 per working day, 6 days per week (EUR 723.50 per month). The temporary benefit is available from 16 March until 13 May 2020. The benefit is paid by Kela (Social Insurance Institution) and funded by general government. The benefit is not means-tested. But if a person is entitled to other benefits due to loss of earnings this benefit is not payable. It is included as income in the income tests of other benefits, e.g. social assistance, housing allowance, care supplement of home care allowance). The benefit is taxable and subject to social contributions according to the usual rules.

Parents are also entitled to infectious disease allowance if they cannot work because they need to care for a child under age 16 who has been placed in **quarantine**. Allowance is paid at 100% of earnings. If the parent is entitled to paid leave for part of this period according to a collective agreement the allowance is paid to the employer for this part of the period. Allowance is available to both employees and the self-employed. (This is a standard policy, which existed before the Covid-19).

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 April 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. Payment of the allowance ends at the latest when the family's youngest child reaches the age of 3 years or when the child attends ECEC.

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.

H**ome care allowance** is EUR 341.69 per month for the first child under 3 years old, EUR 102.30 per month for other children under 3 years old and EUR 65.73 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 182.66 per month and it is payable for only one child. Since 1 March 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 173.95 per month per child and care supplement is up to EUR 146.29 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 64.00 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** on 1 January 2020 are:

- 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)

The municipal Helsinki supplement for home care allowance is paid for the family, i.e. only for the youngest child. Starting from 1 May 2019, the supplement for 2-year-olds is abolished.

The rates of municipal Helsinki **supplement for private day care allowance** *(not modelled)* in 2020:

Type of child care	Child's age	Supplement (EUR per month)
Institutional private ECEC	under 3 years old	600
	3 years old or older	340
Private family day care	under 3 years old	320
	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 (2020).

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

Flexible care allowance *(Joustava hoitoraha)*

A father or mother who participates in the care of a child under 3 years of age and works no more than 30 hours (or no more than 80% of normal full-time hours) per week on average may be entitled to a flexible care allowance. The allowance is paid for one child only.

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 in 2020 is:

- EUR 243.58 per month if the recipient works no more than 22.5 hours per week or no more than 60% of normal full-time hours (the latter is used in the model)
- EUR 162.39 per month if the recipient works more than 22.5 hours or more than 60% but no more than 30 hours or 80% of normal full-time hours (the latter is used in the model).

Partial care allowance *(Osittainen hoitoraha)*

Parents of first- and second-graders (usually 7-8 years old) are entitled to partial care allowance. The allowance amounts to EUR 97.85 per month (2020) if a parent works no more than 30 hours per week on average.

Note: Both parents can receive flexible and partial care allowance simultaneously if they fulfil the conditions and take care children at different times (e.g. father on Monday-Tuesday and mother Wednesday-Friday). This is what is assumed in the model.

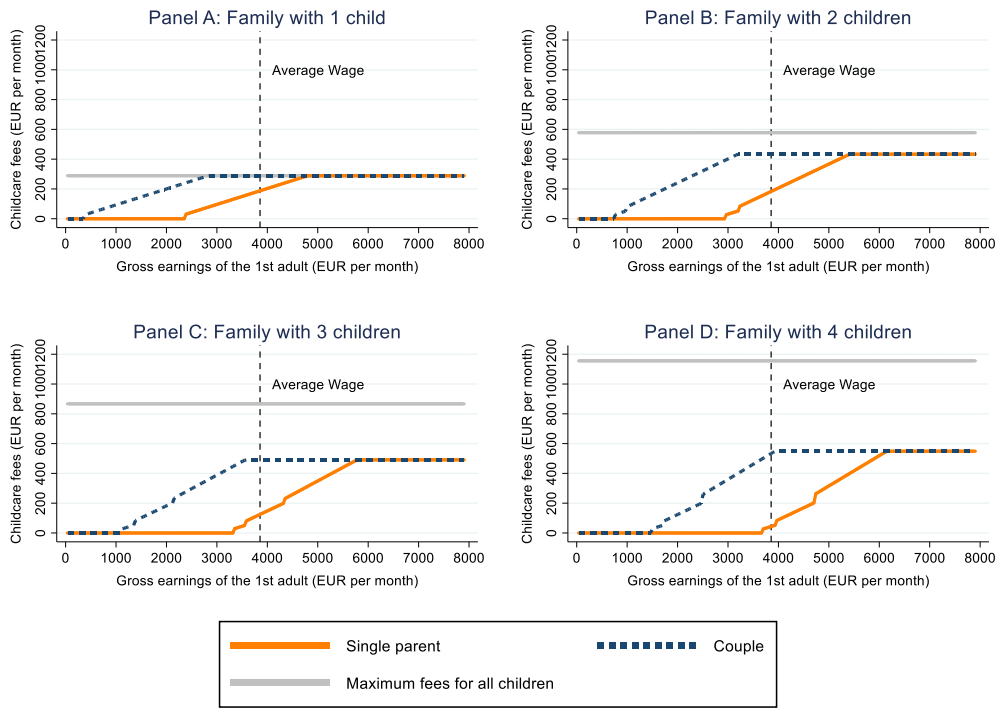
If parents are eligible to both flexible and partial care allowances, then parents apply for flexible care allowance which is more generous.

5.5. Tax concessions for childcare expenditures

There are no tax concessions for childcare expenditures.

Figure 6. Childcare fees paid by parents

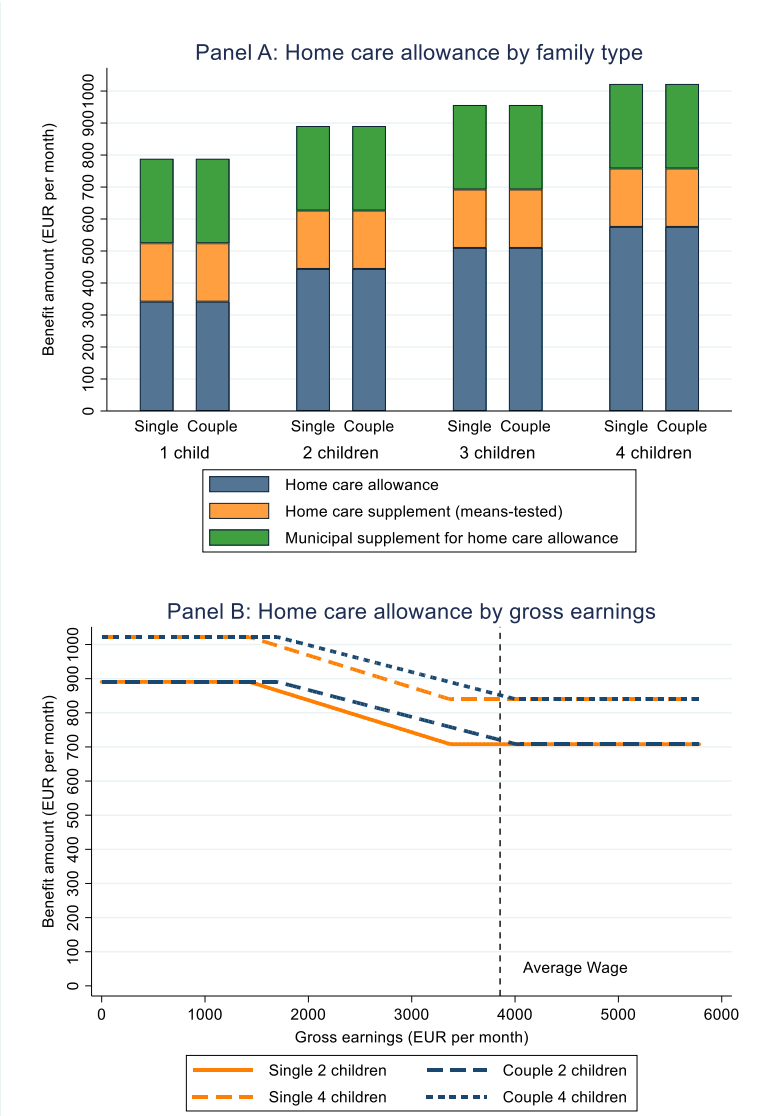
40-year old single person or couple with children



Note: Results assume no receipt of unemployment benefits, maintenance allowance and other benefits, which are usually included in the means test for determining childcare fees. Both parents are working full time and use childcare for all children for the full day. In a couple, the second adult earns 67% of the average wage. Horizontal axis shows gross earnings of the first adult only. Children are 2, 3, 4, and 5 years old.
Source: OECD Tax-Benefit Model.

Figure 7. Home care allowance

40-year old single person or couple with children



Note: Family lives in Helsinki. Children are 1, 2, 3, and 4 years old. Results assume no receipt of unemployment benefits, maintenance allowance and other benefits, which are usually included in the means test for home care allowance (only home care supplement is means-tested). Panel A shows the maximum amount of homecare allowance. Panel B shows reduction in the amount of allowance if one adult is working. *Source:* OECD Tax-Benefit Model.

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 7.15% of gross salary for those who are under 53 years old (17-52) and 8.65% for those who are 53-62 years old and 7.15% for those who are 63-67 years old.

Employees' **unemployment insurance** contribution equals to 1.25% 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 2020, the rate is 1.18% of gross wage. If gross annual earnings are below EUR 14 574 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. Since 2020, the rate of the health insurance contribution for medical care insurance is 0.68%. There is additional 0.97% 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.

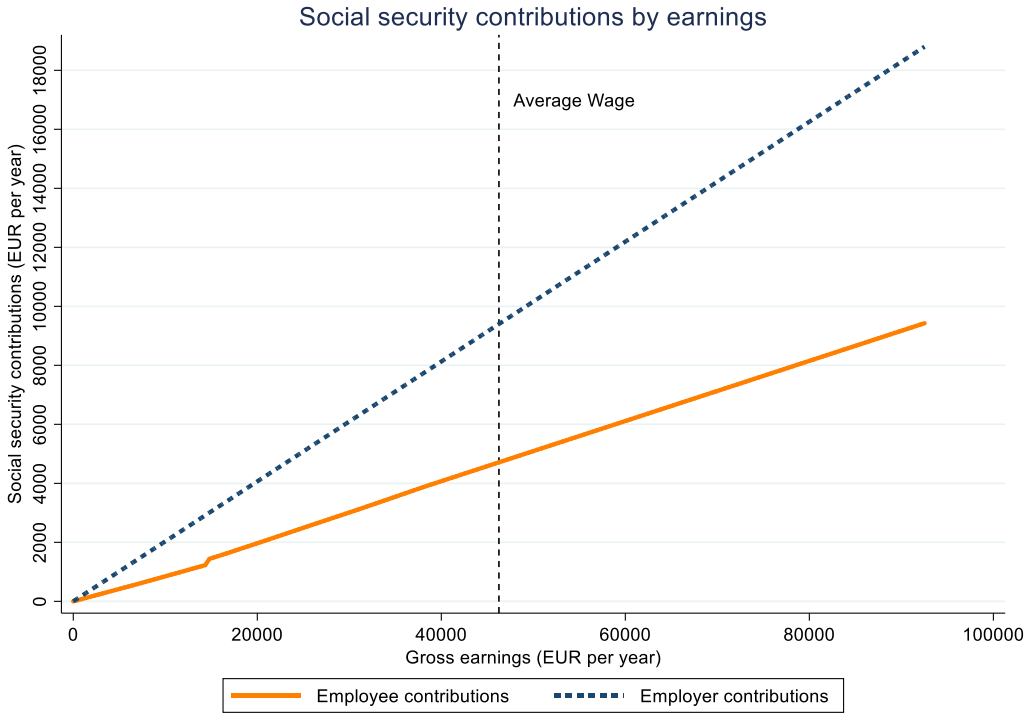
7.2. Employer social security contributions (Työnantajan sosiaalivakuutusmaksut)

Variable names: **[SSCR_p, SSCR_s]**

The average rate of the employers' statutory social insurance contributions in 2020 is 20.32% of gross wage (private sector employers). In 2018, it was 20.43%.

Figure 8. Social security contributions

40-year old single person without children



Note: Social security contributions do not depend on family structure.
Source: OECD Tax-Benefit Model.

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 750 is granted (since 2017).

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 (%)
18 100 – 27 200	8	6.00
27 200 – 44 800	554.0	17.25
44 800 – 78 500	3 590.0	21.25
78 500 and above	10 751.25	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 12.5% of the income exceeding EUR 2 500 (per year), until it reaches its maximum of EUR 1 770. The amount of the credit is reduced by 1.84% 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 130 000.

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

8.2. Local government income tax (Kunnallisvero)

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 3 540, 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 2020, the tax rate varies between 16.5% and 23.5%, the average rate being approximately 19.97%. The average tax is simulated in the model.

8.2.4. Tax credits

If earned income tax credit exceeds the amount of central government income tax it is deductible from the municipal income tax and the health insurance contribution for medical care.

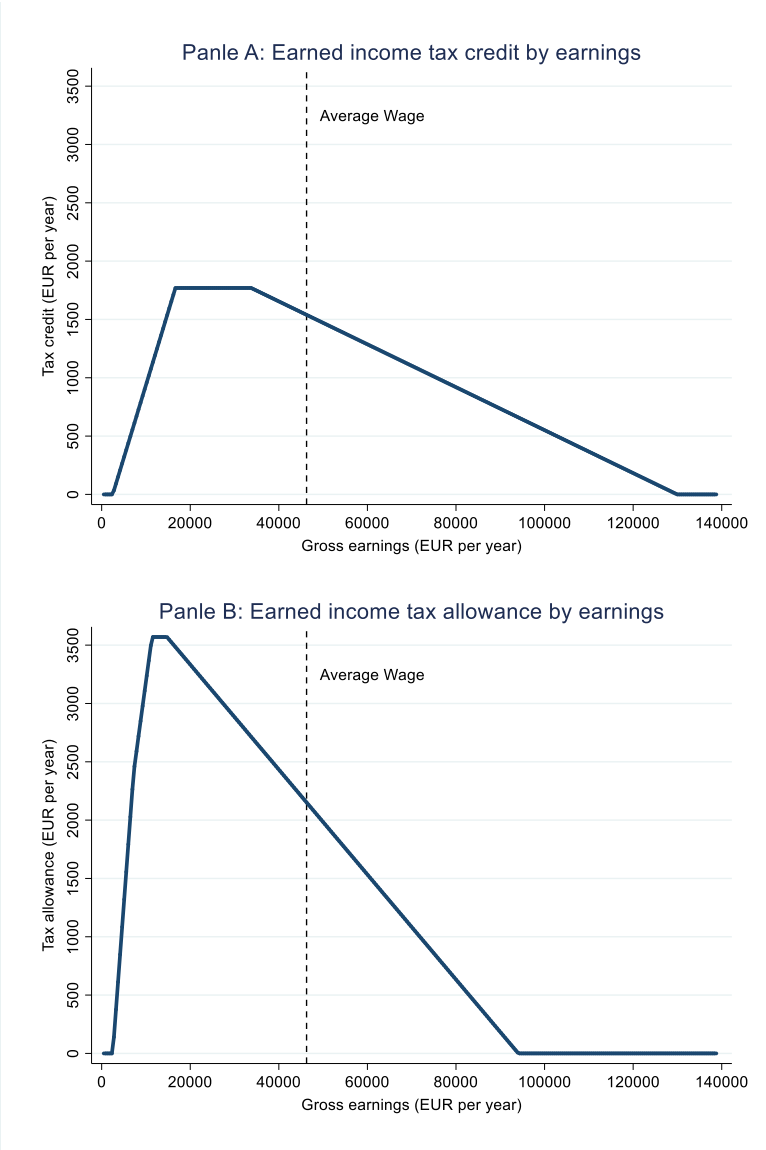
8.3. Broadcasting tax *(Yleisradiovero)*

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.

Figure 9. Tax reliefs

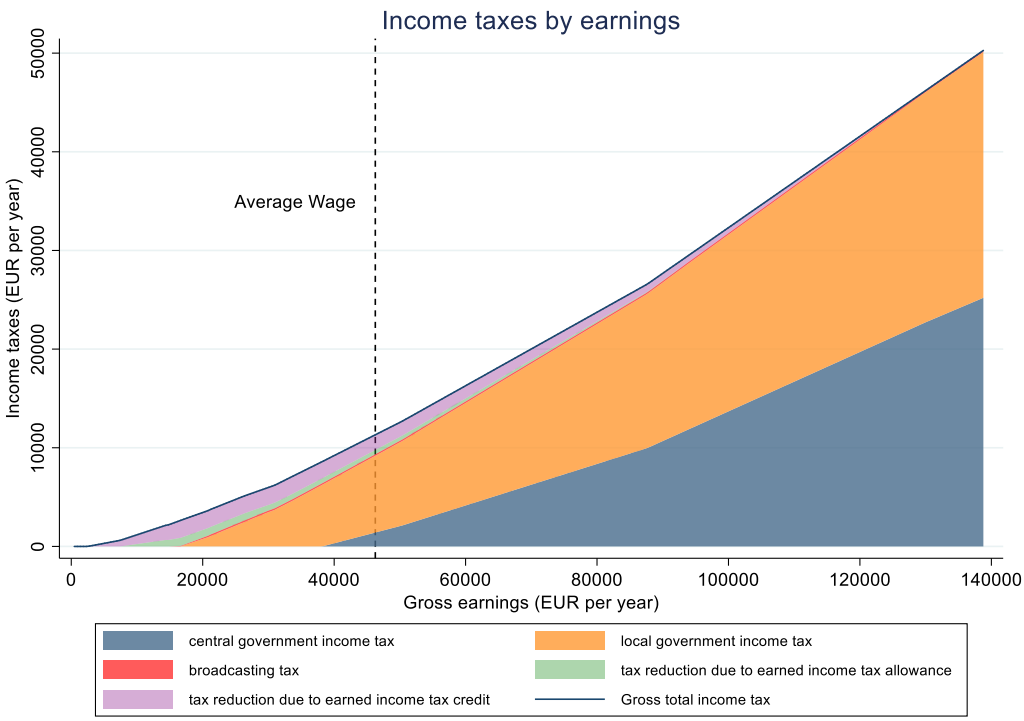
40-year old single person without children



Note: A person has no other sources of income but earnings from work. The figure shows tax reliefs: earned income tax credit and earned income tax allowance. The amounts of tax reliefs do not depend on family structure, but they vary with earnings.
Source: OECD Tax-Benefit Model.

Figure 10. Income taxes

40-year old single person without children



Note: A person has no other sources of income but earnings from work. Income tax is calculated at the individual level and does not depend on family structure. In the model, tax variable contains gross total income tax. Tax reductions due to earned income tax allowance and earned income tax credit are recorded as in-work benefits. Thus, final taxes paid are equal to the difference between the total gross tax and tax reductions. In the figure, final taxes are shown as the sum of central government, local government and broadcasting taxes.
Source: OECD Tax-Benefit Model.

9. Sickness benefits

Section 9.1. describes the sickness benefit paid by the state in case of temporary incapacity for work or quarantine ordered by the doctor. Section 9.2. describes mandatory payments by the employer in the same situations. Section 9.3. provides information on the infectious disease allowance paid by the Social Insurance Institution (Kela) in case of infection with infectious disease (e.g. Covid-19 but also other infectious diseases) if the physician responsible for infectious disease control in the municipality or hospital district has ordered person into isolation or quarantine. Infectious disease allowance existed before Covid-19. Sick childcare allowance is not considered in this report.

Sikness benefits are not included in the model.

*9.1. **Sickness allowance** (Sairauspäiväraha)*

This is the sickness benefit paid by the state in case of temporary incapacity for work or quarantine ordered by the doctor.

9.1.1. Eligibility conditions

Compulsory sickness insurance scheme is provided to permanent residents and employees with earnings-related benefits. In some cases, a minimum/flat rate benefit is provided for persons with low taxable income.

All permanent residents aged 16-67 are eligible: employees, self-employed, unemployed, students, and others (e.g. those working while receiving a pension, family caregivers and foster care providers). In addition, employed or self-employed non-resident persons working in Finland are also covered.

There is no qualifying period.

9.1.2. Benefit amount

In 2020 daily amounts dependent on previous annual earnings:

- no earnings or earnings under EUR 1 483: EUR 28.94 per week day (six days a week)
- earnings between EUR 1 483 and EUR 31 595: 70% of 1/300 earnings
- earnings above EUR 31 595: EUR 73.72 plus 20% of 1/300 of earnings exceeding EUR 31 595.

There is a 9.58% (2020) reduction from earnings before the benefit is calculated.

If an unemployed person received unemployment benefits during the last 4 months, the sickness benefit will amount to at least 86% of the unemployment benefit. If person has received unemployment benefit for shorter period than the 4 last months, the sickness benefit is based on previous earnings (i.e. “normal” rules). For the waiting period of the sickness allowance unemployed person is entitled to receive unemployment allowance.

9.1.3. Benefit duration

Waiting periods:

The employer usually continues to pay wages for the first 9 days (see Section 9.2.). If there is no employer, the waiting period is 9 working days from the onset of the sickness. For

self-employed, the waiting period is one day. For farmers and grant/scholarship recipients, the waiting period is 3 days.

Duration:

Sickness allowance for the same illness can be paid for up to 300 days (excluding Sundays) over a 2-year period. If a person returns to work for a minimum of 30 calendar days after having received sickness allowance for the maximum duration, they are entitled to an extra 50 days of sickness allowance (paid 6 days per week).

9.1.4. Means test

Not means-tested.

9.1.5. Tax treatment

The benefit is subject to general taxation rules. The recipient is liable to pay contributions for medical care insurance (see Section 7.1.

9.1.6. Interaction with other components of the tax-benefit system

Sickness allowance and unemployment benefits cannot be paid simultaneously. The sickness allowance can be combined with other social benefits, but this may have an effect on the amounts received. In such cases, the sickness allowance can be the primary benefit, and amount of the other benefit is adjusted by deducting the sickness allowance from it.

Sickness allowance is included in means tests for social assistance, housing benefit, homecare allowance and childcare fee calculations.

One household can receive at the same time sickness allowance and home care allowance as long as it is not the recipient of sickness allowance who takes care of children.

9.1.7. Combining benefit receipt and employment/starting a new job

If the person works very little, approximately 1-2 hours a week, it may be possible to grant full sickness allowance and continue working. However, sickness allowance is not payable for the days person works.

If the person has two or more jobs and becomes unfit for one job, it may be possible to receive sickness allowance and still continue working in the other job(s). In this case, the amount of sickness allowance is based only on income of the job that the person is not capable of performing because of the illness.

Partial sickness allowance *(osasairauspäiväraha)*

Partial sickness allowance is intended to make it easier for an employee or self-employed person who is incapacitated for work to return to work on a part-time basis (40-60% of previous working time) and remain employed. It is based on agreement between the employer and the employee, and on a medical assessment.

Partial sickness allowance is paid to those who have been employed full time before sickness has occurred. The part-time arrangement must last for an uninterrupted period of at least 12 days (excluding Sundays). It is payable for a maximum of 120 working days (6 days per week). After the maximum is reached, it can be paid on account of the same illness only if the claimant has in the meantime been fit for work for at least one year. If a person returns to work for a minimum of 30 calendar days after having received partial sickness

allowance for the maximum duration, they are entitled to an extra 50 days of partial sickness allowance. Partial sickness allowance can be paid even if the person has already been paid the regular sickness allowance for the maximum period of time. Partial sickness allowance is 50 % of full sickness allowance.

9.2. Sick pay by employer (Sairausajan palkka)

The employer has a legal obligation to continue payment of wages for the first 9 days in case of temporary incapacity for work. There is no legal obligation to pay wage during the quarantine.

9.2.1. Eligibility conditions

Aged 16-67 years and unable to work because of an illness.

9.2.2. Benefit amount

Employer pays full salary for the first 9 working days (6 days per week) if the employment relationship has lasted at least one month; if it lasted under one month - 50% of the salary.

By collective agreements most employers pay the full salary for more than 9 days, e.g. for one month. In such cases, the sickness allowance for the additional period is paid directly to the employer by the Social Security Institution (Kela). In the private sector about 89% of employees are covered by collective agreements.

9.2.3. Benefit duration

The duration of payments is 9 days; longer for employees under collective agreements.

9.2.4. Means test

Not means-tested.

9.2.5. Tax treatment

The wage is subject to usual taxation rules. Usual contribution rates apply.

9.2.6. Interaction with other components of the tax-benefit system

These payments are treated in the tax-benefit system in the same way as usual wages.

9.2.7. Combining benefit receipt and employment/starting a new job

It is possible to reduce working hours due to sickness.

9.3. Sickness allowance on account of an infectious disease (Tartuntatautipäiväraha)

Sickness allowance on account of an infectious disease provides cover for loss of income if the physician responsible for infectious disease control in the municipality or hospital district has ordered person into quarantine or isolation, or to be absent from work in order to prevent the spread of an infectious disease. This infectious disease allowance is different from the normal sickness allowance received in case of incapacity to work due to illness The remaining of the Section describes the rules for employees.

9.3.1. Eligibility conditions

Employee has to provide a medical certificate to get the infectious disease allowance and be covered under the Finnish social security system.

9.3.2. Benefit amount

Employee receives full compensation for the loss of income (100% of reduction in earnings due to quarantine). The amount of compensation is determined on the basis of the wage that the worker would have received if s/he has not been ordered to stay away from work (determined based on the information provided by the employer). The infectious disease allowance is paid to the employer from Kela insofar as the employer has paid a wage or salary for the time of absence from work due to sick leave.

9.3.3. Benefit duration

The compensation is provided during the whole period of absence, without any upper limit (i.e. until the medical certificate is no longer valid). There is no waiting period.

9.3.4. Means test

Not means-tested.

9.3.5. Tax treatment

Subject to usual taxation rules and social security contributions as for recipients of sickness allowance (see Section 9.1.5.).

9.3.6. Interaction with other components of the tax-benefit system

Sickness allowance is included in means tests for social assistance, housing benefit, homecare allowance and childcare fee calculations.

9.3.7. Combining benefit receipt and employment/starting a new job

Reduction in working time and earnings can be partial if a person still continues to do part of work remotely. If a person is offered other suitable work where wage is lower, the benefit is the difference between the original (higher) wage and the new (lower) wage.

10. Short-time work schemes

There is no short-time work scheme in Finland.

The employer may "lay off" an employee under certain conditions specified in the Employment Contracts Act. "Laying off" means that the employer may suspend work and payment of wages and the employee may discontinue work, but the employment relationship is not terminated. "Lay offs" are not simulated in the model.

An employer may lay off an employee only for one of two reasons:

- the employer has a financial or production-related reason for terminating the employment contract, or the work has diminished substantially and permanently, and there is no other work or training to be offered to the employee. In these cases, the employer may lay off the employee until further notice.
- An employer may also lay off an employee when the employer's potential for offering work has diminished temporarily and the employer cannot reasonably provide the employee with other suitable work or training. The work or the potential for offering work are considered to have diminished temporarily if they may be estimated to last a maximum of 90 days. In the latter case, the lay-off will be for a fixed term.

During Covid-19, the rules for lay-offs were eased (e.g. firms covered by rules of co-determination negotiations can in certain situations temporarily give lay-off notice without proceeding co-determination negotiations).

A lay-off may be a full-time lay-off, in which case the obligation to work is completely removed, or a part-time lay-off, in which case the daily or weekly working hours are reduced.

The lay-off period can begin at the earliest 14 days after the lay-off notice. During Covid-19 this period was reduced to 5 days.

The employee can apply for unemployment benefit for lay off period (see Section 2. . During Covid-19, the state will temporarily participate in funding of the earnings-related unemployment benefits during lay-offs (normally funded mainly by employer and employee contributions).

11. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Finland 2020. TaxBEN by default produces the following output: net household incomes (**black line**) and its subcomponents (**coloured stacked areas**) for selected family and individual circumstances.

The model and the related web calculator is accessible from the project website. The figures show outputs for four scenarios:

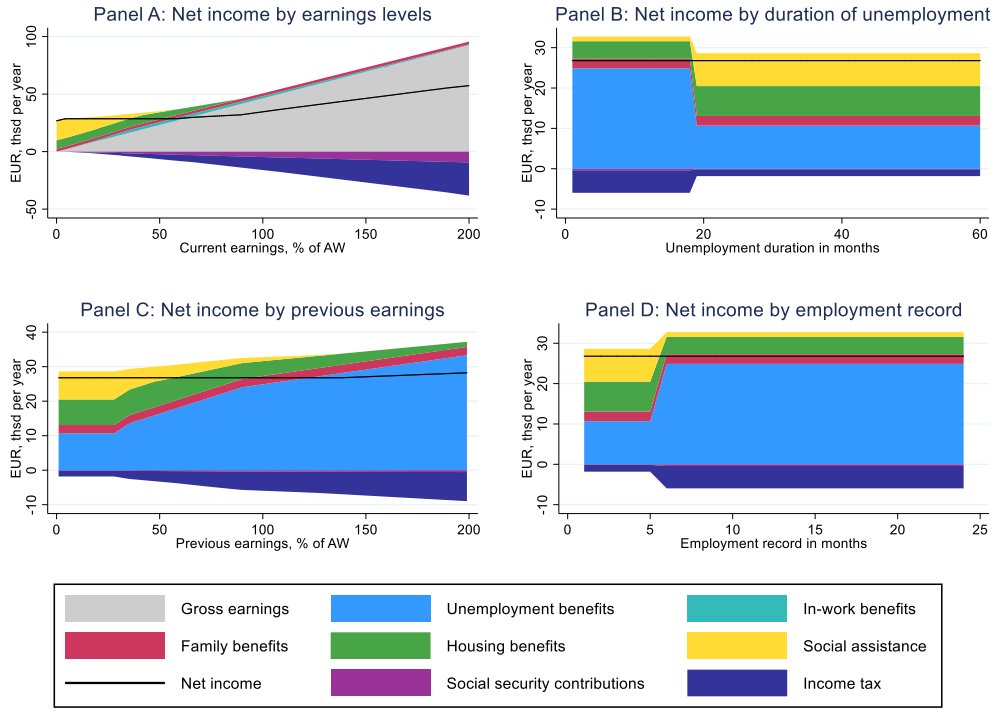
- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the following household income components: **GROSS** = gross earnings; **SSC** = social security contributions; **IT** = income tax; **FB** = family benefits; **HB** = housing benefits; **SA** = social assistance; **IW** = in-work benefits. Note that each component may contain more than one benefit or tax.

Results refer to a two-adult family with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Figure 11. Selected output from the OECD tax-benefit model

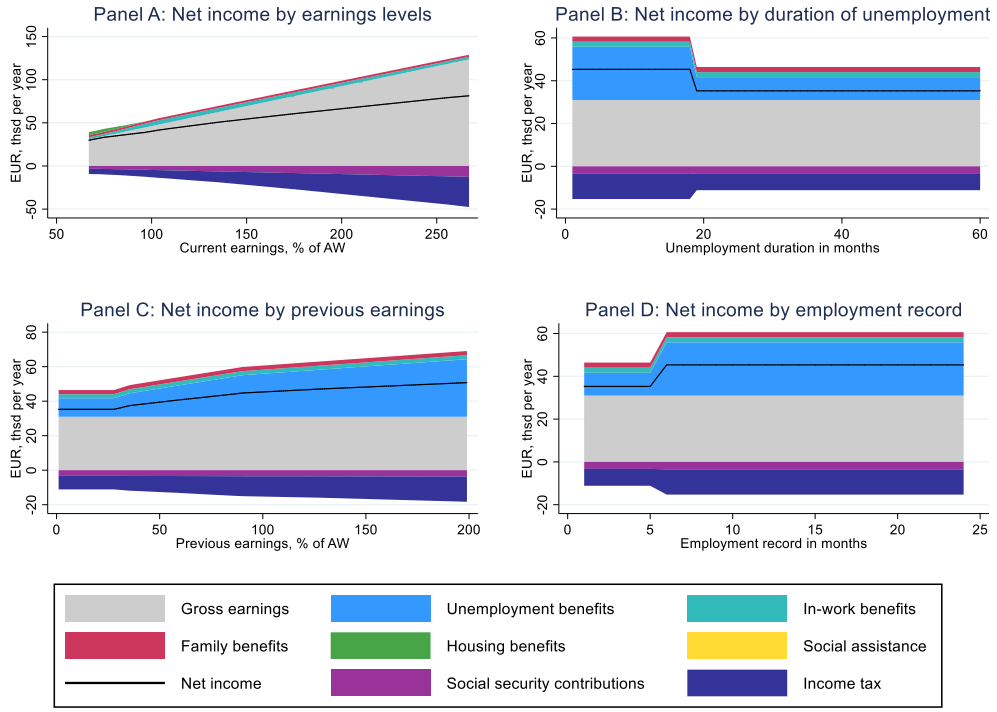
One-earner couple with two children



Note: In Panel A, the first adult is employed full-time and full-year. The second adult is out of work and not eligible for unemployment benefits, e.g. because they have expired (the same is assumed for the first adult when earnings are zero).In Panels B to D, the first adult is out of work and claiming unemployment benefits, whereas the second adult is out of work and not eligible to unemployment benefits. Previous earnings of the first adult equal to the Average Wage. In Panels B and C, the first adult is assumed to have a 'long' employment record of 264 consecutive months before the job loss. Panels C and D refer to the 2nd month of unemployment benefit receipt.
Source: OECD Tax-Benefit Model.

Figure 12. Selected output from the OECD tax-benefit model

Two-earner couple with two children



Note: In Panel A, the both adults are employed full-time and full-year. In Panels B to D, the first adult is out of work and claiming unemployment benefits. Previous earnings of the first adult equal to the Average Wage. In Panels B and C, the first adult is assumed to have a 'long' employment record of 264 consecutive months before the job loss. Panels C and D refer to the 2nd month of unemployment benefit receipt. In all panels, the second adult is employed and receives 67% of the average wage.
Source: OECD Tax-Benefit Model.