

FINLAND

1. Overview of the system

There exists a three-tier system of unemployment benefits: a basic benefit, an earnings related part and a means-tested follow-up benefit. The earnings related supplement is paid to insured people only; insurance is voluntary. Housing costs are covered through a separate income related scheme. There is a social assistance scheme which guarantees a minimum income for every inhabitant of the country. The tax unit is the individual. The 1995 APW earnings level is Fmk 132 533.

2. Unemployment insurance

The basic benefit and the earnings related part are for the purposes of this study classified as unemployment insurance. The follow-up benefit (Labour Market Support) is classified as unemployment assistance. The basic benefit is funded by the state; the earnings related part through a voluntary insurance fund, by government and employers.

2.1 *Conditions for receipt*

Payable to any registered unemployed person, who is between 17 and 64 years old, who is available for and actively seeking work.

2.1.1 *Employment conditions*

6 months of work (minimum of 18 hours per week) in the last 24 months.

2.1.2 *Contribution conditions*

Earnings-related benefit: 6 months of voluntary contribution to an insurance fund preceding the claim.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

Basic benefit: Fmk 118/day (5 days/week).

Earnings related benefit: 42 per cent of daily reference earnings (DRE) in excess of the basic benefit; plus 20 per cent of DRE in excess of Fmk 493.95.

The daily reference earnings are calculated as follows:

$M = \text{gross earnings in the reference year} / 12.5$ (monthly earnings are calculated to exclude holiday pay, hence the division by 12.5 instead of 12; note that in practice the previous six months are used as reference period)

$D = M / 21.5$ (21.5 working days/month)

$DRE = D * 95.5$ per cent (pension and unemployment insurance contributions are covered by a fixed payment set at 4.5 per cent by the Ministry of Social Affairs).

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 supplement	Rate (in Fmk per day [*])
1 child	24
2 children	35
3 or more children	45

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

Note that if both parents are unemployed, both receive the basic allowance and both receive the child supplement.

2.2.2 *Income and earnings disregards*

If an unemployed person begins to work part-time, he/she is entitled to receive (for a certain period) a so called adjusted unemployment benefit. The working hours may not exceed 80 per cent of the working hours of full-time work. The unemployment benefit is reduced by 80 per cent of gross income exceeding Fmk 750 per month. The maximum amount of adjusted benefit may not exceed 90 per cent of reference earnings.

2.3 *Tax treatment of benefit*

Taxable, but social security contributions are reduced. Only the Sickness Insurance and the National Old Age Pension contributions are levied on the benefits.

2.4 *Benefit duration*

Paid for at most 500 days (5 days/week; 100 weeks) in any four-year period after a 5-day waiting period.

Note that 6 months of temporary employment fulfills the employment condition for starting a new 500 days earnings-related period. The reference earnings are based on the initial reference earnings.

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

None.

2.5.2 *Older workers*

Persons who become unemployed at the age of 53 years and one month are entitled to the benefit until the age of 60. After 60 they are usually entitled to Old Age Pension.

3. **Unemployment assistance**

Labour Market Support (LMS) is aimed at promoting first time entrants and recipients' re-entry to the labour market.

3.1 *Conditions for receipt*

Payable to any registered unemployed person, who is between 17 and 64 years old, who is available for and actively seeking work.

3.2 *Calculation of benefit amount*

3.2.1 *Calculation of gross benefit*

The maximum Labour Market Support benefit is equal to the basic unemployment allowance (see Section 2.2.1).

3.2.2 *Income and earnings disregards*

The income test is suppressed:

- during the first 180 days for persons who have previously received the unemployment allowance for the maximum period allowed (500 days);
- for unemployment allowance recipients aged 55 or more;
- during any period in which the recipient participates in measures supporting his/her integration into the labour market that have been arranged by an employment authority.

The income-test is applied to the combined monthly gross income of the recipient and the partner; the latter's earnings are excluded until Fmk 300/month. The disregarded amount equals Fmk 5 540 per annum for a couple or Fmk 3 700 per annum for a single plus Fmk 630 per annum for each dependent child. The LMS benefit is reduced by 75 per cent of the gross income exceeding the disregard.

3.3 Tax treatment of benefit

Taxable, but social security contributions are reduced. Only the Sickness Insurance and the National Old Age Pension contributions are levied on the benefits.

3.4 Benefit duration

Unlimited. There is no waiting period except for first-time entrants to the labour market who must complete a 3-month waiting period (unless they have recently graduated from a vocationally oriented educational institute).

3.5 Treatment of particular groups

3.5.1 Young persons

First time entrants to the labour market who live with their parents only get 60 per cent of the benefit, unless they participate in a labour policy measure. There is a three-months waiting period unless the claimant has graduated from vocational education.

3.5.2 Older workers

None.

4. Social assistance

Social assistance allowance is a residual social benefit which acts as a final safety-net. There are two nation-wide basic standard levels for different municipality categories; Category I (the most generous) is used.

4.1 Conditions for receipt

It is paid conditional on passing a means test.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

Family size	Rate (Category I) (in Fmk per month)	Per cent of single rate
Single/Lone parent	2 021	100
Couple (per person)	1 718	85
Allowance per child		
Child over 17*	1 475	73
Child 10-16	1 415	70
Child under 10	1 334	66

* Children aged 17 or over, living with their parents constitute their own household when social assistance is calculated.

Social assistance may cover reasonable housing costs or other costs (such as health care, work-related expenses).

4.2.2 Income and earnings disregards

No disregards: all earnings from paid work and all social/family benefits included in this chapter reduce the maximum benefit. Some municipalities may disregard some earnings if they are considered to promote the independence of the recipient.

4.3 Tax treatment of benefit

Not taxable.

4.4 Benefit duration

As long as the means-test is satisfied.

4.5 Treatment of particular groups

4.5.1 Young persons

See Section 4.2.1.

4.5.2 *Older workers*

None.

5. **Housing benefits**

There are three income-related schemes:

- a general housing allowance available to families, couples and single people of limited means;
- a housing allowance for pensioners (not considered);
- an allowance scheme for students (not considered).

5.1 *Conditions for receipt*

Income-tested.

5.2 *Calculation of benefit amount*

5.2.1 *Calculation of gross benefit*

The housing benefit is limited to certain income bands that vary with the number of persons in the household and with the geographical location. The general housing allowance is 80 per cent of the difference between the rent and a so-called “deductible amount”. The deductible amount is determined by the family type and the geographical location and increases linearly with gross income (without social benefits). The following rates are for the areas of Helsinki, Espoo, Kauniainen and Vantaa.

Number of persons in the household	Gross income (in Fmk per month) where deductible amount = 100	Gross income where deductible amount increases with earnings	Deductible amount associated to increasing gross earnings	Gross income limit above which there is no housing benefit (in Fmk per month)
1	0 - 1 700	1 701 - 6 700	134 - 1 880	6 701
2	0 - 2 200	2 201 - 7 600	123 - 2 031	7 601
3	0 - 3 900	3 901 - 10 500	102 - 2 030	10 501
4	0 - 4 900	4 901 - 11 200	102 - 2 013	11 201
5	0 - 6 000	6 001 - 12 500	103 - 2 035	12 501
6	0 - 7 100	7 101 - 13 800	101 - 2 022	13 801
7	0 - 8 200	8 201 - 14 800	108 - 2 024	14 801
8	0 - 9 100	9 201 - 15 700	104 - 2 011	15 701

5.2.2 *Income and earnings disregards*

There is a special disregards for lone parents of Fmk 1 900. Earnings and unemployment benefits are taken into the means-test; family benefits are disregarded.

5.3 *Tax treatment of benefit*

Not taxable.

5.4 *Treatment of particular groups*

Students and pensioners have special housing allowances.

6. **Family benefits**

6.1 *Conditions for receipt*

To have a dependent child under 17 years old.

6.2 *Calculation of benefit amount*

6.2.1 *Calculation of gross benefit*

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Rate per child (from 1/7/1995)	
(in Fmk per month)	
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1st child	535
2nd child	657
3rd child	779
4th child	901
5th and subsequent	1 023

6.2.2 *Income and earnings disregards*

Universal, not means-tested.

6.3 *Tax treatment of benefit*

Not taxable.

6.4 Treatment of particular groups

6.4.1 Lone parents

Additional allowance of Fmk 200 per child per month.

7. Child-care benefits

There are reduced fees for child day-care centres.

7.1 Conditions for receipt

To have a child under 3 years old.

7.2 Calculation of benefit amount

7.2.1 Calculation of gross benefit

Gross family income is divided into brackets according to family size. Each bracket is connected with a payment amount. If monthly income exceeds the amounts for a bracket, the family is classified in the next bracket (for a family of 2 persons with an income higher than Fmk 15 700, bracket 5 applies)

Family size (parents+children)	Monthly income bracket*					
	0	1	2	3	4	5
2	5 900	8 600	9 300	10 100	15 700	
3	7 500	10 500	11 400	12 500	19 800	
4	9 200	13 200	14 200	15 500	24 500	
5	11200	15200	16700	18500	29300	
6	12900	17800	19200	21100	35500	

* If monthly income is Fmk 11 000, bracket 4 applies for 2 persons, bracket 2 applies for 3 persons, bracket 1 applies for 4 persons.

Monthly payment per child depends on which income bracket applies:

Income bracket	Payment* (in Fmk per month)					
	0	1	2	3	4	5
Full-day-care	0	385	550	825	1 100	1 430
Maximum 5 hours per day-care	0	220	330	440	660	880

* Income brackets are differently defined by municipalities, payments are not.

If there are several children from the same family in the public day-care, only the youngest child would be in the income bracket obtained from the table. The second child would be in the bracket just below, and so on.

7.2.2 *Income and earnings disregards*

Gross family income is taken into the income-test.

7.3 *Tax treatment of benefit*

Not taxable.

7.4 *Benefit duration*

As long as the conditions are satisfied.

7.5 *Treatment of particular groups*

None.

8. Employment-conditional benefits

None.

9. Lone-parent benefits

Lone parents receive an additional allowance of Fmk 200 per child per month (see Section 6). Also a child receives maintenance support when the person liable to pay maintenance payment neglects this duty. A child is entitled to maintenance support even when the paternity has not been confirmed. The maintenance support is Fmk 637 per child per month. For others (e.g. remarried providers) it is Fmk 518 per child per month. There is no means-test.

10. Tax system

It consists of a central government tax, a local government tax, a church tax, and social security contributions.

10.1 *Income tax rate schedule*

10.1.1 *Tax allowances and credits*

The tax allowances are as follows:

Standard tax allowances for central government, local government and church taxes (for in-work earnings only):

- work related expenses of 3 per cent of earnings, with a maximum of Fmk 1 500;

- social security contributions for pension premium and unemployment insurance fee (Section 10.3).

For local government and church taxes only (for in-work earnings, unemployment benefits, and Labour Market Support) and in addition to the standard tax allowances:

- low income deduction:
 - if earnings < 80 000: 5 per cent of earnings over 20 000, with a maximum of 2 000;
 - if earnings > 80 000: positive difference between 2 000 and 5 per cent of earnings over 80 000;
- standard deduction (SD):

$$SD = 8\,800 - 0.2 \cdot (I - OD - 8\,800), \text{ where}$$

I = income liable to taxation before deductions

OD = other deductions in local and church taxation

if $(I - OD) < 8\,800$ then $SD = I - OD$

SD must be positive

10.1.2 *The definition of taxable income*

The gross earnings minus the tax allowances.

10.1.3 *The 1995 tax schedule*

- Central government tax:

Taxable income (Fmk)	Tax on lower limit (Fmk)	Marginal tax rate (%)
0 - 42 000	0	0
42 000 - 58 000	50	7
58 000 - 72 000	1 170	17
72 000 - 102 000	3 550	21
102 000 - 160 000	9 850	27
160 000 - 285 000	25 510	33
285 000 +	66 760	39

- Local government tax: the average tax rate is 17.53 per cent of taxable income.
- Church tax: the average tax rate is 1.3 per cent of taxable income; about 87 per cent of the population are members of the State churches, so pay this tax.

10.2 *Treatment of family income*

Spouses are taxed separately.

10.3 *Social security contribution schedule*

Based on gross earnings, and tax deductible:

- pension premium: 4 per cent;
- unemployment fee: 1.87 per cent;

Based on local government taxable income (and not tax deductible):

- sickness insurance: 1.90 per cent under Fmk 80 000, 3.80 per cent over Fmk 80 000;
- old age pension: 0.55 per cent.

11. Part-time work

11.1 *Special benefit rules for part-time work*

Persons working for less than 18 hours per week do not qualify for unemployment insurance.

Children younger than 3 give entitlement to Home Care Allowance if the parent is working less than 30 hours per week. The allowance amounts to Fmk 477 per month.

11.2 *Special tax and social security contribution rules for part-time work*

None.

12. Policy developments

12.1 *Policy changes introduced in the last year*

None.

12.2 *Policy changes announced*

Several changes are introduced in 1996 and 1997. Most of the 1996 reforms are expenditure cuts aimed to reduced central government deficit, and most 1997 reforms are aimed to improve the work incentives. As a whole they are intended to be more or less revenue neutral.

Since January 1 1997, the employment condition for the unemployment insurance is 10 months in the last 24 months. The contribution condition for earnings-related is 10 months. The waiting period is extended from 5 to 7 days (1 calendar week + 2 days) for both basic and earnings-related allowances. The age limit for extended duration benefit increases from 55 to 57 years old.

New eligibility conditions for Labour Market Support have been imposed on young persons. To be eligible for Labour Market Support, an unskilled person under 20 (since January 1 1996) or under 25 (since January 1 1997) may not decline a job or training offer or choose not to apply for vocational training.

Since January 1 1996, the child supplement of Labour Market Support is smaller than in the unemployment allowance. There are changes in the means-testing of LMS: income disregards limits are decreased, but at the same time the reduction rate of couples is reduced from 75 per cent to 50 per cent of the income exceeding the income limit. The 3-month waiting period for first-time entrants to the labour market (without vocational education) is extended to 5 months. At the same time 5-day waiting period is introduced for all recipients to LMS.

From January 1 1996, the amount of social assistance may be decreased by 20 per cent if the recipient has refused (without justifiable reason) to accept a job offer or to participate in the active labour market programmes. It is also planned that social assistance recipients should cover 7 per cent of their housing costs.

In 1996, the means-testing of housing allowance is further tightened. At the beginning of 1997 the means-testing of housing allowance should be weakened; this is related to the reform of social assistance.

Reforms on child-care allowances and the structure of public day-care fees were introduced during 1997.

In 1997, there are changes in tax brackets, marginal rates, deductions and social security contributions rates. Only in-work earnings, not transfers, give entitlement to the low income deduction. At the same time the amount of the deduction was increased and the reduction rate decreased.

From January 1 1997, special benefit rules for part-time workers are changed: the Fmk 750 per month earnings disregard is abolished but at the same time the reduction rate will be decreased to 50 per cent (from 80 per cent). The working hours may not exceed 70 per cent of the working hours of full-time work (now 80 per cent). The maximum amount of adjusted benefit may not exceed 85 per cent of reference earnings (now 90 per cent).

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The annual tax/benefit position of an unemployed single person, 1995 (Fmk)

	Unemployment insurance: 100 weeks	Labour Market Support: from the 100th week	Social assistance
A. Taxable benefits			
Means-tested benefits			
Labour Market Support		30 444	
Non-means tested benefits			
Unemployment insurance	68 690		
Total taxable benefits	68 690	30 444	0
B. Income tax and social security contributions			
State income tax allowances	0	0	
State taxable income	68 690	30 444	
State income tax	2 987	0	
Local income tax allowance	2 000	5 097	
Local taxable income	66 690	25 347	
Local and church taxes	12 558	4 772	
Social security contributions	1 634	621	
Total income tax and social security contributions	17 179	5 393	0
C. Non-taxable benefits			
Means-tested benefits			
Social assistance	0	8 852	30 513
Housing benefits	3 951	16 856	20 245
Non-means tested benefits			
Total non-taxable benefits	3 951	25 708	50 759
D. Net income out of work (A-B+C)	55 462	50 759	50 759
E. Net income in work	82 115	82 115	82 115
F. Net replacement rate (D/E) (per cent)	68	62	62

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The annual tax/benefit position of an unemployed married couple with two children, 1995 (Fmk)

	Unemployment insurance: 100 weeks	Labour Market Support: from the 100th week	Social assistance
A. Taxable benefits			
Means-tested benefits			
Labour Market Support		39 474	
Non-means tested benefits			
Unemployment insurance	77 720		
Total taxable benefits	77 720	39 474	0
B. Income tax and social security contributions			
State income tax allowances	0	0	
State taxable income	77 720	39 474	
State income tax	4 751	0	
Local income tax allowance	2 000	3 832	
Local taxable income	75 720	35 642	
Local and church taxes	14 258	6 711	
Social security contributions	1 855	873	
Total income tax and social security contributions	20 864	7 584	0
C. Non-taxable benefits			
Means-tested benefits			
Social assistance	0	33 308	65 198
Housing benefits	15 176	20 245	20 245
Non-means tested benefits			
Family benefits	14 304	14 304	14 304
Total non-taxable benefits	29 480	67 857	99 748
D. Net income out of work (A-B+C)	86 338	99 748	99 748
E. Net income in work	98 919	99 748	99 748
F. Net replacement rate (D/E) (per cent)	87	100	100

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The annual tax/benefit position of an unemployed lone parent with two children, 1995 (Fmk)

	Unemployment insurance: 100 weeks	Labour Market Support: from the 100th week	Social assistance
A. Taxable benefits			
Means-tested benefits			
Labour Market Support		39 474	
Non-means tested benefits			
Unemployment insurance	77 720		
Total taxable benefits	77 720	39 474	0
B. Income tax and social security contributions			
State income tax allowances	0	0	
State taxable income	77 720	39 474	
State income tax	4 751	0	
Local income tax allowance	2 000	3 832	
Local taxable income	75 720	35 642	
Local and church taxes	14 258	6 711	
Social security contributions	1 855	873	
Total income tax and social security contributions	20 864	7 584	0
C. Non-taxable benefits			
Means-tested benefits			
Social assistance	0	0	28 134
Housing benefits	12 341	20 245	20 245
Non-means tested benefits			
Family benefits	34 392	34 392	34 392
Total non-taxable benefits	46 733	54 637	82 771
D. Net income out of work (A-B+C)	103 589	86 527	82 771
E. Net income in work	120 665	120 665	120 665
F. Net replacement rate (D/E) (per cent)	86	72	69