
FINLAND 2004

1. Overview of the tax-benefit system

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

1.1. *Average worker wage (AW)*

The 2004 AW earnings level is EUR 31 416.

2. Unemployment insurance

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

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 full-time work.

2.1.1 *Employment conditions*

43 weeks of work (minimum of 18 hours per week) in the last 28 (since 2003, still 24 months in the qualification condition for re-entry, see "return condition" below 2.4.) months.

2.1.2 *Contribution conditions*

Earnings-related benefit: 10 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: EUR 23.16 /day (5 days /week).

Earnings related benefit: Basic benefit; plus 45 per cent of daily reference earnings (DRE) in excess of the basic benefit until EUR 96.95 ; plus 20 per cent of DRE in excess of EUR 96.95 (96.95 = 90 * basic benefit / 21.5);).

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

$M = \text{gross earnings in the reference year} / 12.5$ (monthly earnings are calculated here to exclude additional holiday pay included in the AW, hence the division by 12.5 instead of 12; note that in practice the 43 week period needed to fulfil the employment condition is usually used as reference period, excluding additional holiday pay).

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

$DRE = D * 95.15$ per cent (pension and unemployment insurance contributions are covered by a fixed payment set at 4.85 per cent by the Ministry of Social Affairs in order to avoid “over compensation” since these contributions are paid from wage and salary income). These contributions are not paid on benefit income. 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 (total)	Rate (in EUR per day*)
1 child	4.39
2 children	6.44
3 or more children	8.31

* 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/earnings related allowance and both receive the child supplement.

The earnings-related allowance can be a maximum of 90 per cent of the daily wage, but at least equal to the basic allowance plus any child increases (applies also to previous years, no change in rules, only addition to text).

2.2.2 Income and earnings disregards

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. 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 75 per cent of the working hours of full-time work. The unemployment benefit is reduced by 50 per cent of gross income. The maximum amount of combined adjusted benefit (including child supplement) and income from part-time work may not exceed 90 per cent of reference earnings (100 per cent for those receiving increased earnings related allowance, see 2.5 below). Adjusted unemployment allowance can be paid for up to 36 months. Maximum provision is not applied to persons who are 59 years old or older before the 36 month maximum provision is reached (57 years if person has been born 1949 or before) (since 1.12.2003). Person is entitled to adjusted

unemployment benefit even after 36 month maximum period if the entitlement is based on full-time employment for a period not exceeding two weeks (applies also to 2001-2003). Calculation of the 36 month maximum payment period is started from the beginning if the person has been in full-time employment without interruption for a minimum of six months or, after the maximum payment period, has become re-eligible under the relevant employment condition (renewal condition, see 2.4) (applies also to 2001-2003). NOTE: Due to transitional provisions 36 month maximum provision has not been applied since 1994 (situation in April 2005: transition period extended to 31.12.2005).

2.3 Tax treatment of benefit

Taxable, but of social security contributions only the Health Insurance contribution is levied on the benefits.

2.4 Benefit duration

Paid for at most 500 days (5 days /week; 100 weeks) after a 7-day waiting period. If there are several separate spells of unemployment during 500 days period only one 7-day waiting period will be applied.

Note that since 1.1.2003 34 weeks (previously 43 weeks) of work during the 24-month period (minimum 18 hours a week) fulfils the employment condition for starting a new 500 days earnings-related period (so called "return condition"). The reference earnings are based on the most recent earnings fulfilling the employment conditions. However, the new earnings related benefit level must be at least 80 per cent of the previous benefit level if the employment condition is fulfilled before the 500 days maximum period is exhausted.

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 Older workers

An unemployment allowance can also be paid after the 500-day maximum period for older workers ("additional days rule"). As a part of an extensive pension reform the unemployment pension scheme will be gradually abolished. Therefore also "additional days rule" has been changed as from 1 January 2003; accordingly, the rules differ to persons born prior to 1950 and those born after that date (reflecting the age limits of transitional provision of unemployment pension).

Persons born prior to 1950: The old rule is observed for a person who reaches the age of 57 before the 500-day maximum period has accrued. In addition to the 500 days, the person receives an allowance up to the end of the month during which he/she reaches the age of 60. Thereafter the person can apply for an unemployment pension (not covered here).

Persons born in 1950 or thereafter: A person born in 1950 or thereafter can be paid an allowance up to the end of the month when he/she reaches the age of 65 if the person has reached the age of 59 before the 500 days have accrued. In addition, it is required that the person has been in employment with pension

entitlement for at least five years during the past 20 years. Note that due to age limits these rules will not be applied before 2009.

The so called redundancy pay system was discontinued at the end of 2002. Persons becoming unemployed as from 1 January 2003 can be paid an increased earnings-related allowance instead of redundancy pay.

Eligibility for an increased earnings-related allowance:

- an employment relationship that is in effect for the time being is terminated for economic and production-related reasons
- the claimant has been a member of an unemployment fund for five years
- the claimant has been in employment with pension entitlement for at least 20 years

Amount of an increased earnings-related allowance

- The increased earnings-related allowance is 55 per cent (normally 45 per cent) of the difference between daily wages (DRE) and the basic allowance. If daily wages (DRE) exceeds upper income limit ($90 * \text{basic benefit} / 21.5$) the increased earnings-related allowance declines to 32.5 per cent (normally 20 per cent) for the part in excess. I.e. the difference in compensation formula are these two percentages (formula: see 2.2.1 above)
- The rule in determining a normal earnings-related unemployment allowance, which says that the earnings-related allowance can be a maximum of 90 per cent of daily wages, does not apply to an increased earnings-related allowance. The increased allowance can be a maximum of the full daily wage (DRE) but nevertheless equal to the basic allowance plus any child increases

An increased earnings-related allowance can be paid for 150 days. The period of unemployment need not continue without interruption, but there may be periods of employment in between. If there are so many periods of employment that a new employment condition is fulfilled, the days entitling to an increased earnings-related allowance are paid from the unemployment allowance calculated on the basis of the new wage or salary income.

2.5.3 *Entrepreneurs*

Unemployment benefits are also payable to entrepreneurs fulfilling conditions for receipt (including conditions for discontinuation of business activity). As with employees entrepreneurs have to members of unemployment funds in order to be entitled to earnings related benefit. There are separate unemployment funds for entrepreneurs. The earnings related scheme for entrepreneurs is funded by the state, employers, and insured (entrepreneurs).

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; since 2002 the child supplements are the same as well).

Child supplement (total)	Rate (in EUR per day*)
1 child	4.39
2 children	6.44
3 or more children	8.31

* 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/earnings related allowance/Labour Market Support and both receive the child supplement.

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, who at the time they became employed satisfied the employment condition (43 weeks of employment during preceding 28 (since 2003) months).
- 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 income is excluded until EUR 536 per month. The disregarded amount equals EUR 848 per month for a couples and lone-parents or EUR 253 per month for a single plus EUR 106 per month for each dependent child. The LMS benefit is reduced by 50 per cent of the gross income exceeding the disregard, e.g. child allowance, home care allowance, maintenance support and housing allowance are disregarded from the income test. For single person the LMS benefit is reduced by 75 per cent of the gross income exceeding the disregard.

Example of an unemployed person with spouse (earnings EUR 1 736/month) and two dependent children:

$$\text{Spouse's income in income-test } 1\,736 - 536 = \text{EUR } 1\,200 \text{ /month}$$

Disregard	$848 + 2 \cdot 106 = \text{EUR } 1\,060$ /month
Income exceeding disregard	$1\,200 - 1\,060 = \text{EUR } 140$ /month
Reduction of LMS	$50\% \cdot 140 = \text{EUR } 70$ /month = EUR 70/21.5 per day = EUR 3.26 /day

Example of for a single person with additional income EUR 500 / month (e.g. capital income):

Disregard	EUR 253 /month
Income exceeding disregard	$500 - 253 = \text{EUR } 247$ /month
Reduction of LMS	$75\% \cdot 247 = \text{EUR } 172.9$ /month = EUR 172.9/21.5 per day = EUR 8.04 /day

If a recipient of LMS begins to work part-time (including irregular work with reduced working time), the LMS recipient is also entitled to the adjusted LMS. The rules are same as in earnings related unemployment benefit (see section 2.2.2). Note that both the income-test of adjusted benefit due to earnings from part-time work and the usual income-test above are carried out. First the amount of LMS after usual income-test is calculated as in the above examples. Then, the calculated amount of LMS is reduced by earnings from part-time work according to rules of adjusted LMS. Earnings from part-time work are not included in the income-test.

3.3 *Tax treatment of benefit*

Taxable, but of social security contributions only the Health Insurance contributions are levied on the benefits.

3.4 *Benefit duration*

Unlimited. There is a five-day waiting period for all recipients of benefits. First-time entrants to the labour market must complete a 5-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*

Partial labour market support: 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. Since 1.7.2003 the reduction depend on income of parents. If parental income exceeds EUR 1781 per month, the labour market subsidy payable is reduced by 50% of the excess. However, partial labour market support is at least 50 per cent of the amount that recipient would have received without any reduction due to parents income (e.g. at least 50 per cent of the amount that recipient would have received after adjustment for own income from part-time work). The EUR 1781 disregard is increased by EUR 106 per month for each dependent child that parents have (aged 0-17).

A person aged 17-24 may not decline a job or training offer or choose not to apply for vocational training.

3.5.2 *Older workers*

Means-testing for previous unemployment allowance recipients aged 55 or more has been suppressed (see section 3.2.2.).

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. The need for social assistance is estimated each time case by case. For a person or a family that applies for social assistance a calculation is made of their income and expenditure entitling to social assistance. Expenditure that gives entitlement to social assistance consists of a basic amount plus an additional amount to cover outgoings which are assessed separately. If this combined amount is higher than the family's net income, 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 (newspaper, telephone, TV licence) and minor, everyday health care costs. Also 7 per cent of housing costs should be covered by the basic amount (ownrisk, deductible). Rest of the housing costs considered as reasonable are covered by additional allowance. Other expenditure items that are covered by additional allowance are children's day care fees and larger health care costs (pharmaceuticals, fees of health centres, doctors or dentists, cost of spectacles). Usually all income is included into the means test. Taxes are deducted from the gross income. Assets are also included into the means test. There is no asset threshold, but a small part of savings may be disregarded in order to enhance the self-sufficient living of families. Some assets are also excluded from the means test. These include housing if occupied by recipients, furniture, tools for work or studies, etc. The possibility to realise property/assets should also be considered in the means test.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

Basic amounts:

Family size	Rate (Category I) (in EUR per month)	Per cent of single rate
Single/Lone parent	377.15	100
Couple (per person)	320.58	85
Allowance per child		
Child over 18*	275.32	73
Child 10-17	264.01	70
Child under 10	237.60	63

* Children aged 18 or over, living with their parents constitute their own household when social assistance is calculated (separate means test).

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 per cent or 63 → 58 per cent of single rate) the rate of the third and subsequent child will be 10 percentage points lower (e.g. 70 → 60 or 63 → 53).

In addition to these basic amounts for “everyday living costs”, additional social assistance is granted to cover reasonable housing costs or other costs (such as health care, work-related expenses). See above.

The amount of social assistance may be reduced by 20 per cent if person refuses to accept a work offer or do not participate in training or certain other activating measures. If refusal is recurrent social assistance may be reduced by 40 per cent. If social assistance is reduced authorities must, if possible, in cooperation with the recipient, to devise a plan to enhance “self-sufficient living of the recipient”. (Applies also to previous years, no change in rules, only addition to text).

For the purpose of this study, SA is calculated as the basic amount plus 93 per cent of the rent.

The municipalities can use their own discretion in setting the upper limit for reasonable housing costs in social assistance. Social assistance covers often higher housing costs than housing allowances (*i.e.* social assistance has higher maximum amount). In calculations it has been assumed that the housing costs do not exceed the upper limit of social assistance.

To calculate the final SA benefit amount, the procedure is comparing the net income from all other sources to this level. If it is above it there is no right to social assistance. If it is below the level then the actual social assistance that is payable is the difference between the social assistance level and the net income from all other sources (including regular housing benefits).

Social assistance can be paid to supplement (top-up) other benefits and other income sources (e.g. wage and salary). Most of the recipient households of social assistance have other income sources which social assistance “tops-up”. One typical top-up case is single long-term unemployed receiving labour market support (net of taxes), housing allowance and social assistance

4.2.2 Income and earnings disregards

Social assistance: Since April 2002 is 20 per cent of net earnings up to the maximum amount EUR 100 (/month /family) will be excluded from the income-testing. The law will be in force until 31 March 2005. Otherwise 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-tested 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 with small steps as gross income increases (there are several income brackets for each family type and area). The incomes are rounded to the nearest full euro before the income test. The 2004 deductible amounts for Helsinki (I municipality group since 2002) and Espoo, Kauniainen and Vantaa (together II municipality group since 2002) are presented in appendix 1.

There are upper limits for the rents (housing costs) that are covered by the housing costs. In some areas these limits may in practice be below the market rate.

 The calculation of maximum housing costs is rather complicated. There is a maximum area of the dwelling for each household size:

Persons	Maximum area, m ²
1	37
2	57
3	77
4	90
5	105
6	115
7	125
8	135

Then there are limits for maximum housing costs per m². These limits depend on the municipality group, age and size of the dwelling and for some other criterion that are not important here. Below are the limits for the Helsinki (first municipality group since 2002).

Maximum housing costs per m2 in 2004, Helsinki (I municipality group)

Size of dwelling, m ²	Age of dwelling		
	...-1985	1986...95	1996...
-25.9	11.25	12.08	12.58
25.9-30.9	10.41	11.23	11.74
31-35.9	9.57	10.39	10.90
36-45.9	8.80	9.91	10.41
46-60.9	8.33	9.60	10.11
61-80.9	8.09	9.17	9.67
81-	8.01	9.08	9.59

Example: the assumption concerning housing costs is that they are 20 per cent of the AW for all family types. For Finland 2004 this is equivalent of housing cost of EUR 490.82 per month (= 20% * 29 449 / 12). For a single person living in a 35m² dwelling in Helsinki, in a house which was built in 2000, the maximum amount is 35 * 10.9 = EUR 381.5, which is clearly below EUR 490.82. Result: the costs above 381.5 are ignored when the housing allowance is calculated.

For the purpose of this study the table below is used to calculate the maximum housing cost:

Maximum housing cost per month

Number of persons in the household	Maximum housing cost
1	35*10.90
2	55*10.11
3	75* 9.67
4	85* 9.59
5	100* 9.59
6	110* 9.59

5.2.2 *Income and earnings disregards*

There is a special EUR 90 per month disregard for lone parents with one child. If there are more than eight person in a household EUR 260 is deducted from the monthly gross income for each person above eight person (applies also to previous years, no change in rules, only addition to text). Earnings, unemployment benefits and home care allowance are taken into the income-test; child allowance and maintenance support are disregarded. 15 per cent of the assets above certain thresholds are considered as income. This amount is divided by 12 to get monthly income. The thresholds vary with family size.

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*

Rates of child allowance	
	Rate per child (in EUR per month)
1st child	100.00
2nd child	110.50
3rd child	131.00
4th child	151.50
5th and subsequent	172.00

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 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

Lone parents: Additional allowance of EUR 36.60 per child per month.

7. **Childcare for pre-school children**

Parents can choose to place their child in a day-care centre run by the municipality, 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. Public day care is available to all children under school age (7 years old) after the parenthood period of parents. Even older children who for some specific reason (e.g. health) are exempt from school are entitled to public day care.

Child care arrangements vary considerably according to the age of the child (see appendix 2). Nearly half of all children under school age are in day care, whereas children under one are almost exclusively cared for at home. Forty-four percent of two-year-olds are in day care, while over 60 percent of children over three are in day care. Majority of children in day care use municipal day care (municipal day care centre or municipal family day care). The demand for day care for six-year-olds has diminished as almost all six-year-olds attend pre-school. Even those children who attend pre-school are entitled to part-time day care.

Day care fees cover only a small part of the total costs of municipal day care (about 15% in year 2003).

7.1 *Out-of-pocket childcare fees paid by parents*

The public day care fees are income related; the higher the family income, the higher the fee. The fee is a portion (percentage value) of the family income exceeding the income limit until the maximum amount is reached. These limits and percentages are different for each family type (3 different size categories). When the family type is determined only children entitled to day care 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 day care). If there are other children aged 0-17 than those who have been included when the family size is determined, EUR 89 /month /additional child will be deducted from the gross income before income-test.

Example 1: A couple with 2, 4, 6 and 10 year-old children, family size is 4 (2 adults + max 2 children entitled to day care) so there will be 2 * EUR 89 deduction from the gross income before income-test.

Example 2: A single parent with 4 and 8 year-old children, family size is 2 (1 adult + 1 child entitled to day care) so there will be 1 * EUR 89 deduction from the gross income before income-test

All the amounts in the following table are monthly:

The grounds for public day care fees

Family size (parents + children < 7*, max 2)	Income limit (in EUR per month)	Per cent of income exceeding income limit
2	918	11.5
3	1 132	9.4
4	1 344	7.9

* See text above for precise definition

If there are more than two children in the same family in the public day care, the fees of the third and subsequent children are 20 per cent of the fee for the first child. The maximum fee for the first (the youngest) child is EUR 200 /child /month. For the second child the maximum fee is EUR 180 /child /month. If the day care fee of a child amounts to less than EUR 18 it is not paid.

Example: A couple with three children all in day care. Gross income EUR 4217.81 /month. Family type is 4 => $(4217.81 - 89 - 1344) * 7.9\% = 220$. Fee for the first child : $\min(220, 200) = 200$ €/month. Fee for the second child: $\min(220, 180) = 180$ €/month. Fee for third child: $20\% * 200 = 40$ €/month

If the child is in the day care for five hours or less per day then the day care is classified as part-time care and fees should be adjusted accordingly. There are no strict rules for this, but 60 percent of the fee for the full-time care is the current estimate of the average adjustment. The fee for the third and subsequent child are calculated in relation to the full-time equivalent fee of the first child even if the first child only uses part-time care.

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

7.2 *Child-care benefits*

7.2.1 *Conditions for receipt*

For families with children under three years old who do not use public day care, there is a home care allowance, which includes a care allowance and a care supplement. In addition to the home care allowance, there is private day care allowance for those who use private day care for children under 7 years old and do not receive home care allowance for any children in the family.

7.2.2 *Calculation of benefit amount*

The home care allowance is EUR 252.28 per month for the first child under three years old, EUR 84.09 per month for other children under three years old and EUR 50.46 per month for children between three and six years old (i.e. under school age). Home care supplement is income-tested. The maximum amount is EUR 168.19 per month and it is payable for only one child. The family definition is the same as in public day care (income limits and reduction rate see table below). The home care supplement decreases as the income exceeding income limit increases. There is no similar income disregard for additional children as with day care fees. Otherwise the definition of income is similar with day care fees with same benefits disregarded.

The home care allowance supplement

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

The rates and rules of private day care allowance are somewhat different from home care allowance. The private day care allowance consists of a basic allowance and an income-tested supplement, which both are paid for each eligible child. The basic allowance is EUR 117.73 /child /month and the supplement is EUR 134.55 /child /month. Note that unlike in home care allowance the supplement is paid for each child entitled to private day care allowance. The income criteria and limits are the same as those that apply to home care allowance care supplement. The allowance is paid at 50 per cent of its normal rate if the child is in pre-primary education organized by the local authorities or starts school at age 6. The private day care allowance is paid directly to service provider and is also taxed as the income of the 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. However, if the child is under three years old, the parents can apply for child home care allowance.

7.2.2 *Income and earnings disregards*

In home care allowance and private day care allowance there are no similar income disregards for additional children as with day care fees. Otherwise the definition of income is similar with day care fees with same benefits disregarded.

7.3 *Tax treatment of benefit and interaction with other benefits*

Home-care allowance is taxable income. The private day care allowance is taxed as the income of the provider of the day care services. 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.

7.4 *Benefit duration*

As long as the conditions are satisfied.

7.5 *Treatment of particular groups*

See 11 for partial care allowance.

The care of a disabled or chronically ill child can involve additional expense and often requires families to make special arrangements. To support care at home, eligible children who are aged 16 or less and live in Finland are entitled to child disability allowance. The allowance is paid without regard to the parents' or the child's income or assets. It is free from tax and payable at three rates depending on the need

of care and rehabilitation and the economic burden related to this (Applies also to 2001, 2002 and 2003). In to 2004 the rates were 77.32, 180.43 and 335.09 € / month.

Special care allowance is payable to parents who take part in treatment or rehabilitation arranged for their child. Special care allowance is generally payable only for maximum of 60 days for per child in a calendar year. (Applies also to 2001, 2002 and 2003)

8. Employment-conditional benefits

Low income earners in Finland are eligible for an earned income allowance. See section 10.1.2.

9. Lone-parent benefits

Lone parents receive an additional supplement to child allowance (EUR 36.60 /child /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 EUR 118.15 /child /month. Since 1999 the rate has been the same also for remarried providers. There is no means-test. The maintenance support is not taxable.

Note: Lone parents receive maintenance support (EUR 118.15 /child /month).

10. Tax system

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

10.1 Personal Income Tax Systems

10.1.1. Central government income taxes

Tax unit

Spouses are taxed separately for earned income.

Standard tax allowances

Standard tax allowances.

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

Main non-standard tax relief applicable to an AW.

- Interest: interest on loans associated with the earning of taxable income, loans for the purchase of owner-occupied dwelling, and student loans guaranteed by the state can be deducted against capital income. Of the excess of interest over capital income 29 per cent can be credited against income tax up to a maximum of EUR 1 400.
- Membership fees: membership fees paid to employees' organisations or trade unions.

- Travelling expenses: travelling expenses from the place of residence to the place of employment using the cheapest means in excess of EUR 500 up to a maximum deduction of EUR 4 700.
- Other work-related outlays: outlays for tools, professional literature, research equipment and scientific literature, and expenses incurred in scientific or artistic work (unless compensated by scholarships).

Work-related outlays other than membership fees and travelling expenses are deductible only to the extent their total amount exceeds the amount of the standard deduction for work-related expenses.

Rate schedule

Taxable income (EUR)	Tax on lower limit (EUR)	Tax on excess income in bracket (%)
11 700 – 14 500	8	11
14 500 – 20 200	316	15
20 200 – 31 500	1 171	21
31 500 – 55 800	3 544	27
55 800 and over	10 105	34

10.1.2. Local income tax

Tax base and tax rates

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

Municipal tax is levied at flat rates. In 2004, the average tax rate was approximately 18.13 percent.

Municipal tax is not deductible against central government taxes. Work-related expenses and other non-standard deductions are deductible, as for purposes of the central government income tax.

There also exists in Finland a church tax. The tax base and allowances of this church tax are identical to those of the municipal income tax. The average rate is approximately 1.3%. This tax is not taken into account for the calculations in this report, as it is only paid by members of the church.

Allowances in municipal income taxation

An earned income allowance is calculated on the basis of taxpayer's income from work. The allowance amounts to 47 per cent of gross earned income between EUR 2 500 and EUR 7 230, and 23 per cent of gross earned income exceeding EUR 7 230, up to a maximum of EUR 3 550. The amount of the allowance is reduced by 4 per cent of the income exceeding EUR 14 000. Benefit income does not entitle to earned income allowance. However, the benefit income is included when the amount of income exceeding EUR 14 000 is calculated (*i.e.* benefit income may reduce allowance). In that latter income concept, work related expenses are deductible (while they are not deductible in gross earned income).

Pension income entitles to pension income deduction in municipal taxation (only for information, pensions and their taxation are not covered here).

A basic allowance is granted on the basis of taxable income remaining when all other allowances have been subtracted. The maximum amount, EUR 1 480, is reduced by 20 per cent of the income exceeding EUR 1 480.

10.2. Compulsory Social Security Contributions to Schemes Operated within the Government Sector

10.2.1. Employees' contributions

Rate and ceiling

Employees' pension insurance (4.6 per cent) and unemployment insurance contributions (0.25 per cent) amount to 4.85 per cent of gross salary. These two contributions are deductible in income taxation. These two contributions are not levied on benefits.

Distinction by marital status or sex

The rates do not differ.

10.2.2. Employers' contributions

The average rate of the employers' social security contribution in 2001 was 25 per cent of gross wage.

10.2.3. Other social security contributions

In 2004, the rate of the health insurance contribution was 1.5 per cent. The tax base for the health insurance contribution is the taxable income after tax allowances for municipal income tax purposes. Since 2003 the rate of health insurance contribution has been same also for pension income. Previously (1993-2002) the health insurance contribution was higher for pension income.

10.3. Universal Cash Transfers

10.3.1. Amount for marriage

None.

10.3.2. Amount for children

The central government paid in 2004 the following allowances:

	Allowance (EUR)
For the first child	1 200
For the second child	1 326
For the third child	1 572
For the fourth child	1 818
Fifth and subsequent child	2 064

The child subsidy for a single parent is increased by an annual amount of EUR 439.2.

10.4. Main Changes in the Tax/Benefit System Since 2001

In January 2004 the central government tax brackets were adjusted by about one per cent, and the central government marginal tax rates were lowered by one percentage point. The maximum amount of the earned income allowance was raised to EUR 3 550 from EUR 2 550 in 2003, and the maximum amount of the standard deduction for work-related expenses was raised to EUR 620.

The rate of the employees' unemployment insurance contribution was raised from 0,20 to 0,25 per cent.

11. Part-time work

11.1 Special benefit rules for part-time work

See section 2.2.2 (adjusted unemployment benefit).

Children younger than 3 give entitlement to partial Care Allowance if the parent is working less than 30 hours per week while looking after their child. The allowance amounts to EUR 70.00 per month. The partial allowance is taxable income. Since 1.8.2004 also parents of first- and second-graders (usually 7-8 years old) are entitled to partial Care Allowance.

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

None.

12. Policy developments

12.1 Policy changes introduced during the previous year

At the beginning of 2005, the level of national pension(1.3.2005), child home care allowance and the minimum sickness, maternity, paternity and parenthood allowance were raised.

Social assistance: Since 1.4.2005 the maximum amount of 20 per cent disregard of net earnings is EUR 150 /month/family (previously 100, see 4.2.2). The law will be in force until 31.12.2006.

Since 1.7.2005 unemployed persons whose employment contract has been terminated for production-related or economic reasons and who fulfil other qualifying conditions are entitled to re-employment programme supplement to the unemployment benefit.¹ Re-employment programme supplement can be paid for voluntary job-seeking, a work try-out, training connected with job-seeking and adult education within active labour market policy programmes to a total maximum of 185 days within a maximum period of 500 days (the period can contain a maximum of 20 days of voluntary job-seeking).

¹ The conditions for receiving a re-employment programme supplement are that: a re-employment programme has been drawn up, the job seeker has been in employment for at least three years (as stated in the conditions for qualifying for the re-employment programme); the job seeker has fulfilled the employment condition under the Employment Security Act (see 2.1.1 and 2.4).

12.2 *Policy changes announced²*

Government has announced several changes for 2006. In social assistance the 7 per cent own risk (deductible) of housing costs will be abolished (see 4.1). After this social assistance covers all housing costs considered reasonable. In housing allowance the income test will be suppressed for three months for re-employed persons who have been unemployed for more than a year. There will be an increase in national pensions (i.e. basic pension, pensions are not covered here).

2. The changes of benefit rules presented here may not have been ratified and their reading in Parliament may be unfinished or not even started.

Appendix 1. Housing Allowances Deductibles

The 2004 deductible amounts of housing allowance for Helsinki (I municipality group) and Espoo, Kauniainen and Vantaa (together II municipality group)

Upper limit of income bracket, EUR/month	Household size							
	1	2	3	4	5	6	7	8+
510	0	0	0	0	0	0	0	0
525	13	0	0	0	0	0	0	0
540	26	0	0	0	0	0	0	0
555	35	0	0	0	0	0	0	0
570	41	0	0	0	0	0	0	0
585	46	0	0	0	0	0	0	0
600	52	13	0	0	0	0	0	0
615	58	24	0	0	0	0	0	0
630	64	35	0	0	0	0	0	0
645	69	40	0	0	0	0	0	0
660	75	45	0	0	0	0	0	0
675	81	51	0	0	0	0	0	0
690	86	56	0	0	0	0	0	0
705	92	61	0	0	0	0	0	0
720	98	67	0	0	0	0	0	0
735	104	72	0	0	0	0	0	0
750	109	77	13	0	0	0	0	0
765	115	83	23	0	0	0	0	0
780	121	88	33	0	0	0	0	0
795	126	94	38	0	0	0	0	0
810	132	99	42	0	0	0	0	0
825	138	104	47	0	0	0	0	0
840	144	110	52	0	0	0	0	0
855	149	115	56	0	0	0	0	0
870	155	120	61	13	0	0	0	0
885	161	126	66	22	0	0	0	0
900	167	131	70	27	0	0	0	0
915	172	137	75	31	0	0	0	0
930	178	142	80	36	0	0	0	0
945	184	148	84	40	0	0	0	0
960	189	153	89	45	0	0	0	0
975	195	159	94	50	0	0	0	0
990	201	164	98	54	0	0	0	0
1005	207	170	103	59	0	0	0	0
1020	212	176	108	63	0	0	0	0
1035	218	181	113	68	0	0	0	0
1050	224	187	117	72	13	0	0	0

OECD - Social Policy Division - Directorate of Employment, Labour and Social Affairs
Country chapter - Benefits and Wages (www.oecd.org/els/social/workincentives)

1065	229	193	122	77	22	0	0	0
1080	235	198	127	81	26	0	0	0
1095	241	204	131	86	30	0	0	0
1110	247	210	136	91	35	0	0	0
1125	252	216	141	95	39	0	0	0
1140	258	221	145	100	43	0	0	0
1155	264	227	150	104	48	0	0	0
1170	269	233	155	109	52	0	0	0
1185	275	239	159	113	56	0	0	0
1200	281	244	164	118	61	0	0	0
1215	287	250	169	122	65	0	0	0
1230	292	256	174	127	69	0	0	0
1245	298	262	179	132	74	0	0	0
1260	no HA	268	184	136	78	13	0	0
1275	no HA	273	189	141	82	24	0	0
1290	no HA	279	194	145	87	28	0	0
1305	no HA	285	200	150	91	32	0	0
1320	no HA	291	205	154	95	36	0	0
1335	no HA	297	210	160	100	41	0	0
1350	no HA	303	215	165	104	45	0	0
1365	no HA	309	220	170	108	49	0	0
1380	no HA	315	225	176	113	53	0	0
1395	no HA	321	231	181	117	57	0	0
1410	no HA	327	236	186	121	61	0	0
1425	no HA	333	242	192	126	66	0	0
1440	no HA	338	248	197	130	70	13	0
1455	no HA	345	253	202	134	74	21	0
1470	no HA	352	259	208	139	78	30	0
1485	no HA	358	265	213	143	82	34	0
1500	no HA	365	270	219	147	86	38	0
1515	no HA	372	276	224	152	91	42	0
1530	no HA	378	282	230	156	95	46	0
1545	no HA	385	288	235	161	99	50	0
1560	no HA	392	294	241	166	103	54	0
1575	no HA	399	299	246	171	107	58	13
1590	no HA	406	305	252	175	111	62	21
1605	no HA	413	311	257	180	116	66	25
1620	no HA	419	317	263	185	120	70	29
1635	no HA	426	323	269	190	124	74	33
1650	no HA	433	329	274	195	128	78	37
1665	no HA	440	335	280	200	132	82	41
1680	no HA	447	341	286	205	136	86	45
1695	no HA	454	347	292	210	140	90	48
1710	no HA	461	353	298	216	145	94	53

OECD - Social Policy Division - Directorate of Employment, Labour and Social Affairs
Country chapter - Benefits and Wages (www.oecd.org/els/social/workincentives)

1725	no HA	468	359	304	221	149	98	57
1740	no HA	no HA	365	311	226	153	102	61
1755	no HA	no HA	371	317	231	157	106	65
1770	no HA	no HA	377	323	236	161	110	69
1785	no HA	no HA	383	330	241	165	114	73
1800	no HA	no HA	390	336	246	170	118	77
1815	no HA	no HA	396	343	252	174	122	80
1830	no HA	no HA	402	349	257	178	126	84
1845	no HA	no HA	408	356	263	183	130	88
1860	no HA	no HA	414	362	269	188	134	92
1875	no HA	no HA	421	369	275	193	138	96
1890	no HA	no HA	427	376	280	198	142	100
1905	no HA	no HA	433	382	286	202	146	104
1920	no HA	no HA	440	389	292	207	150	108
1935	no HA	no HA	446	396	298	212	154	112
1950	no HA	no HA	452	403	303	217	158	116
1965	no HA	no HA	459	410	309	222	162	119
1980	no HA	no HA	465	416	315	227	166	124
1995	no HA	no HA	472	423	321	232	170	128
2010	no HA	no HA	478	430	327	237	174	132
2025	no HA	no HA	485	437	333	242	178	136
2040	no HA	no HA	491	444	339	247	182	140
2055	no HA	no HA	498	451	345	252	186	143
2070	no HA	no HA	504	458	351	257	191	147
2085	no HA	no HA	511	465	357	262	195	151
2100	no HA	no HA	517	472	363	268	199	154
2115	no HA	no HA	524	479	369	274	204	159
2130	no HA	no HA	531	487	375	279	208	163
2145	no HA	no HA	537	494	382	285	213	167
2160	no HA	no HA	544	501	388	291	217	171
2175	no HA	no HA	551	508	394	297	222	175
2190	no HA	no HA	558	516	400	303	226	179
2205	no HA	no HA	564	523	407	308	230	183
2220	no HA	no HA	571	530	413	314	235	187
2235	no HA	no HA	578	538	419	320	239	191
2250	no HA	no HA	585	545	425	326	244	194
2265	no HA	no HA	592	553	432	332	249	198
2280	no HA	no HA	599	560	438	338	253	203
2295	no HA	no HA	605	568	445	344	259	207
2310	no HA	no HA	no HA	575	451	350	264	212
2325	no HA	no HA	no HA	583	457	356	270	217
2340	no HA	no HA	no HA	590	464	362	276	221
2355	no HA	no HA	no HA	598	470	369	282	226
2370	no HA	no HA	no HA	606	477	375	287	230

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2385	no HA	no HA	no HA	613	483	381	293	234
2400	no HA	no HA	no HA	621	490	387	299	239
2415	no HA	no HA	no HA	629	497	393	305	244
2430	no HA	no HA	no HA	637	503	400	311	249
2445	no HA	no HA	no HA	644	510	406	317	254
2460	no HA	no HA	no HA	652	517	412	323	258
2475	no HA	no HA	no HA	660	523	418	329	263
2490	no HA	no HA	no HA	668	530	425	335	268
2505	no HA	no HA	no HA	676	537	431	341	273
2520	no HA	no HA	no HA	684	543	438	347	276
2535	no HA	no HA	no HA	692	550	444	353	282
2550	no HA	no HA	no HA	700	557	451	359	288
2565	no HA	no HA	no HA	708	564	457	365	294
2580	no HA	no HA	no HA	no HA	571	464	372	300
2595	no HA	no HA	no HA	no HA	578	470	378	306
2610	no HA	no HA	no HA	no HA	585	477	384	312
2625	no HA	no HA	no HA	no HA	591	483	390	318
2640	no HA	no HA	no HA	no HA	598	490	397	324
2655	no HA	no HA	no HA	no HA	605	496	403	328
2670	no HA	no HA	no HA	no HA	612	503	409	335
2685	no HA	no HA	no HA	no HA	619	510	416	342
2700	no HA	no HA	no HA	no HA	626	517	422	348
2715	no HA	no HA	no HA	no HA	634	523	429	354
2730	no HA	no HA	no HA	no HA	641	530	435	360
2745	no HA	no HA	no HA	no HA	648	537	442	366
2760	no HA	no HA	no HA	no HA	655	544	448	372
2775	no HA	no HA	no HA	no HA	662	551	455	379
2790	no HA	no HA	no HA	no HA	669	557	461	385
2805	no HA	no HA	no HA	no HA	676	564	468	390
2820	no HA	no HA	no HA	no HA	684	571	474	397
2835	no HA	no HA	no HA	no HA	691	578	481	404
2850	no HA	no HA	no HA	no HA	698	585	488	410
2865	no HA	no HA	no HA	no HA	706	592	495	416
2880	no HA	no HA	no HA	no HA	713	599	501	423
2895	no HA	no HA	no HA	no HA	720	606	508	429
2910	no HA	no HA	no HA	no HA	728	613	515	435
2925	no HA	no HA	no HA	no HA	735	621	522	442
2940	no HA	no HA	no HA	no HA	743	628	529	447
2955	no HA	no HA	no HA	no HA	750	635	535	454
2970	no HA	no HA	no HA	no HA	758	642	542	462
2985	no HA	no HA	no HA	no HA	765	649	549	468
3000	no HA	no HA	no HA	no HA	773	656	556	475
3015	no HA	no HA	no HA	no HA	780	664	563	481
3030	no HA	no HA	no HA	no HA	788	671	570	488

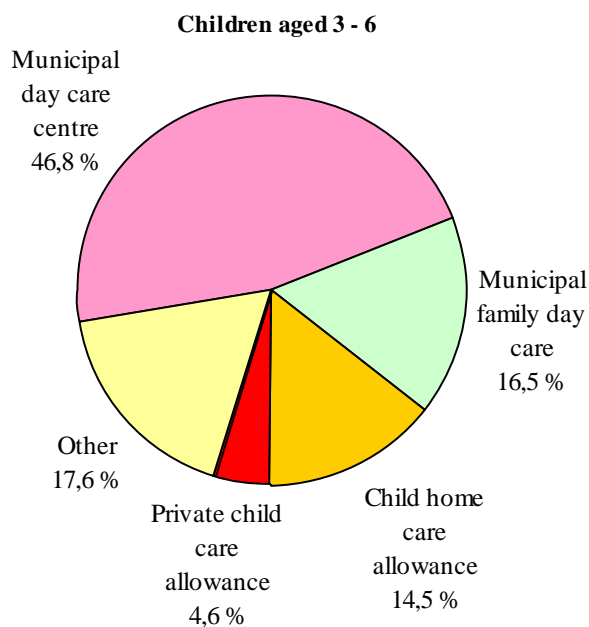
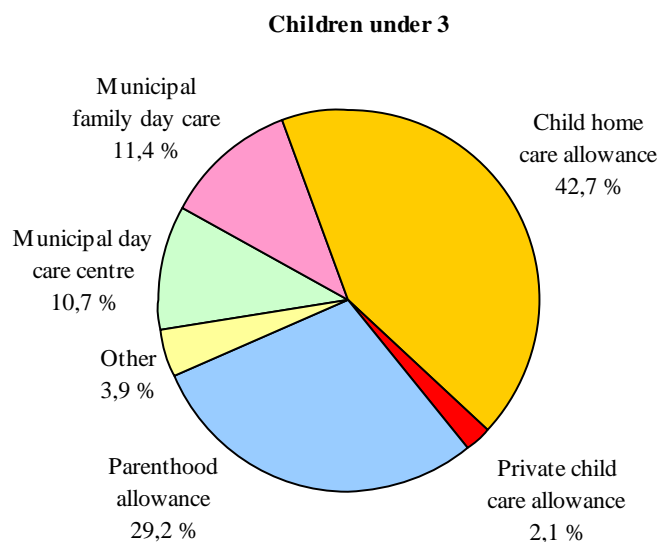
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3045	no HA	no HA	no HA	no HA	795	678	577	495
3060	no HA	no HA	no HA	no HA	803	686	584	501
3075	no HA	no HA	no HA	no HA	811	693	592	507
3090	no HA	no HA	no HA	no HA	818	700	599	514
3105	no HA	no HA	no HA	no HA	826	708	606	522
3120	no HA	no HA	no HA	no HA	no HA	715	613	528
3135	no HA	no HA	no HA	no HA	no HA	723	620	535
3150	no HA	no HA	no HA	no HA	no HA	730	627	542
3165	no HA	no HA	no HA	no HA	no HA	738	635	549
3180	no HA	no HA	no HA	no HA	no HA	745	642	556
3195	no HA	no HA	no HA	no HA	no HA	753	649	563
3210	no HA	no HA	no HA	no HA	no HA	760	657	568
3225	no HA	no HA	no HA	no HA	no HA	768	664	576
3240	no HA	no HA	no HA	no HA	no HA	776	672	584
3255	no HA	no HA	no HA	no HA	no HA	783	679	591
3270	no HA	no HA	no HA	no HA	no HA	791	686	598
3285	no HA	no HA	no HA	no HA	no HA	799	694	605
3300	no HA	no HA	no HA	no HA	no HA	807	701	612
3315	no HA	no HA	no HA	no HA	no HA	814	709	619
3330	no HA	no HA	no HA	no HA	no HA	822	717	627
3345	no HA	no HA	no HA	no HA	no HA	830	724	634
3360	no HA	no HA	no HA	no HA	no HA	838	732	640
3375	no HA	no HA	no HA	no HA	no HA	846	739	648
3390	no HA	no HA	no HA	no HA	no HA	854	747	656
3405	no HA	no HA	no HA	no HA	no HA	862	755	663
3420	no HA	no HA	no HA	no HA	no HA	870	763	670
3435	no HA	no HA	no HA	no HA	no HA	878	770	678
3450	no HA	no HA	no HA	no HA	no HA	886	778	685
3465	no HA	no HA	no HA	no HA	no HA	894	786	693
3480	no HA	no HA	no HA	no HA	no HA	no HA	794	700
3495	no HA	no HA	no HA	no HA	no HA	no HA	802	706
3510	no HA	no HA	no HA	no HA	no HA	no HA	810	715
3525	no HA	no HA	no HA	no HA	no HA	no HA	818	723
3540	no HA	no HA	no HA	no HA	no HA	no HA	826	730
3555	no HA	no HA	no HA	no HA	no HA	no HA	834	738
3570	no HA	no HA	no HA	no HA	no HA	no HA	842	745
3585	no HA	no HA	no HA	no HA	no HA	no HA	850	753
3600	no HA	no HA	no HA	no HA	no HA	no HA	858	761
3615	no HA	no HA	no HA	no HA	no HA	no HA	866	768
3630	no HA	no HA	no HA	no HA	no HA	no HA	874	774
3645	no HA	no HA	no HA	no HA	no HA	no HA	882	783
3660	no HA	no HA	no HA	no HA	no HA	no HA	890	792
3675	no HA	no HA	no HA	no HA	no HA	no HA	899	799
3690	no HA	no HA	no HA	no HA	no HA	no HA	907	807

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3705	no HA	no HA	no HA	no HA	no HA	no HA	915	815
3720	no HA	no HA	no HA	no HA	no HA	no HA	923	823
3735	no HA	no HA	no HA	no HA	no HA	no HA	932	831
3750	no HA	no HA	no HA	no HA	no HA	no HA	940	839
3765	no HA	no HA	no HA	no HA	no HA	no HA	948	845
3780	no HA	no HA	no HA	no HA	no HA	no HA	957	854
3795	no HA	no HA	no HA	no HA	no HA	no HA	965	863
3810	no HA	no HA	no HA	no HA	no HA	no HA	974	871
3825	no HA	no HA	no HA	no HA	no HA	no HA	982	879
3840	no HA	no HA	no HA	no HA	no HA	no HA	no HA	887
3855	no HA	no HA	no HA	no HA	no HA	no HA	no HA	895
3870	no HA	no HA	no HA	no HA	no HA	no HA	no HA	903
3885	no HA	no HA	no HA	no HA	no HA	no HA	no HA	912
3900	no HA	no HA	no HA	no HA	no HA	no HA	no HA	920
3915	no HA	no HA	no HA	no HA	no HA	no HA	no HA	927
3930	no HA	no HA	no HA	no HA	no HA	no HA	no HA	936
3945	no HA	no HA	no HA	no HA	no HA	no HA	no HA	945
3960	no HA	no HA	no HA	no HA	no HA	no HA	no HA	953
3975	no HA	no HA	no HA	no HA	no HA	no HA	no HA	961
3990	no HA	no HA	no HA	no HA	no HA	no HA	no HA	970
4005	no HA	no HA	no HA	no HA	no HA	no HA	no HA	978
4020	no HA	no HA	no HA	no HA	no HA	no HA	no HA	986
4035	no HA	no HA	no HA	no HA	no HA	no HA	no HA	995
4050	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1003
4065	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1012
4080	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1020
4095	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1029
4110	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1038
4125	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1046
4140	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1055
4155	no HA	no HA	no HA	no HA	no HA	no HA	no HA	1064
4156 or more	no HA	no HA	no HA	no HA	no HA	no HA	no HA	no HA

Appendix 2. Care arrangements for young children on 31 December 2003



Source: Ministry of Social Affairs and Health