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## FINLAND 2001

### 1. Overview of the 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. The 2001 AW earnings level is FIM 167 140.

### 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 work.

##### 2.1.1 *Employment conditions*

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

##### 2.1.2 *Contribution conditions*

Earnings-related benefit: 10 months of voluntary contribution to an insurance fund preceding the claim.

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## 2.2 Calculation of benefit amount

### 2.2.1 Calculation of gross benefit

Basic benefit: FIM 127 /day (5 days/week).

Earnings related benefit: Basic benefit; plus 42 per cent of daily reference earnings (DRE) in excess of the basic benefit until 531.63; plus 20 per cent of DRE in excess of FIM 531.63 ( $531.63 = 90 * \text{basic benefit} / 21.5$ ).

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)

$DRE = D * 95$  per cent (pension and unemployment insurance contributions are covered by a fixed payment set at 5 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 FIM per day <sup>*</sup> )
1 child	25
2 children	37
3 or more children	47

<sup>\*</sup> 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.

### 2.2.2 Income and earnings disregards

If an unemployed person begins to work part-time (including irregular work with reduced working time), person is entitled to receive (for 36 months) 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 (incl. child supplement) and income from part-time work may not exceed 90 per cent of reference earnings.

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### **2.3 Tax treatment of benefit**

Taxable, but social security contributions are reduced. Only the Sickness Insurance contributions is 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 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 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. 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**

Persons who become unemployed at the age of 55 years and one month are entitled to the benefit until the age of 60 (i.e. 57 years old unemployed persons who have not exhausted 500 day maximum period). After 60 they are usually entitled to an unemployment pension until they receive their old age pension at age 65.

## **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.

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### **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), with the exception of the child supplements, which are lower (40 % of child benefits of basic unemployment allowance) .

Child supplement (total)	Rate/day
1 Child	10 FIM/day
2 Children	14.80 FIM/day
3+ Children	18.80 FIM/day

#### **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 24 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 FIM 1 400 /month. The disregarded amount equals FIM 5 040 per month for a couple or FIM 1 500 (since 1997) per month for a single plus FIM 630 per annum 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.

### **3.3 Tax treatment of benefit**

Taxable, but social security contributions are reduced. Only the Sickness 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).

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### **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. Since 1997 new, tougher eligibility conditions have been applied to young persons. 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 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. To 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 entitles 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, cloths, hygiene, transport, information (newspaper, telephone, TV licence) and minor, everyday health care costs. Also 7 percent 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 small part of the 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:

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Family size	Rate (Category I) (in FIM per month)	Per cent of single rate
Single/Lone parent	2 152	100
Couple (per person)	1 829	85
Allowance per child		
Child over 18*	1 571	73
Child 10-17	1 506	70
Child under 10	1 356	63

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

If there are 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 % to 58 % 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 “every day living costs”, additional social assistance is granted to cover reasonable housing costs or other costs (such as health care, work-related expenses). See above.

For the purpose of this study, SA is calculated as the basic amount plus 93% 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)

#### 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.

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#### 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 (approximately)<sup>1</sup> 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 FIM per month) where deductible amount = 0	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 FIM per month)
1	0 - 2 900	2 901 - 7 400	80 - 1 805	7 401

1 . In fact, the deductible amount increases by small steps. The linear approximation is used in these calculations

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2	0 - 3 300	3 301 - 10 100	80 - 2 769	10 101
3	0 - 4 200	4 201 - 13 500	80 - 3 592	13 501
4	0 - 5 000	5 001 - 15 100	80 - 4 176	15 101
5	0 - 6 100	6 101 - 18 300	80 - 4 889	18 301
6	0 - 7 200	7 201 - 20 500	80 - 5 346	20 501
7	0 - 8 300	8 301 - 22 600	80 - 5 841	22 601
8	0 - 9 200	9 201 - 24 600	80 - 6 305	24 601

There are upper limits for the rents (housing costs) that are covered by the housing costs. In some areas this 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	Max area, m <sup>2</sup>
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 m<sup>2</sup>. 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 first municipality group in 1999.

### I municipality group

The size of the dwelling	The age of the dwelling					
	...-1975	1976...80	1981...85	1986...89	1990...92	1993...
-35	46.00	46.90	48.90	51.80	54.40	55.80
36-45	40.60	41.80	44.30	48.20	51.10	52.90
46-60	38.30	39.20	41.50	45.70	49.20	51.10
61-80	35.60	37.20	40.10	43.80	46.90	48.50
81+	35.10	36.70	39.60	43.30	46.40	48.00

Example: The assumption concerning housing costs is that they are 20% of the AW for all family types. For Finland 2001 this is equivalent of housing cost of 2 675 per month (= 20% \* 160 512 / 12). For single person living in 35m<sup>2</sup> dwelling in Helsinki, in a house which has been built in 1995, the maximum amount is 35 \* 55.80 = 1 953, which is clearly below 2 675. Result: the costs above 1 953 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:

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### Maximum housing cost per month

Number of persons in the household	Maximum housing cost
1	35*55.80
2	55*51.1
3	75*48.5
4	85*48
5	100*48
6	110*48

#### 5.2.2 *Income and earnings disregards*

There is a special 500 FIM per month disregard for lone parents with one child. 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*

	Rate per child (in FIM per month)
1st child	535
2nd child	657
3rd child	779
4th child	901
5th and subsequent	1 023

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#### 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 FIM 200 per child per month.

### 7. **Child-care benefits and public day-care**

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.

#### 7.1 *Conditions for receipt*

Public day care is available to all children under school age (7 years old). Even older children who for some specific reason (e.g. health) are exempt from school are entitled to public day care. The day care fees are income related; higher the family income, higher the fees. The fee is a portion (percentage value) of the family income exceeding the income limit. These limits and percentages are different for each family type (3 different size categories). There is an additional income disregard (500 Fim/month) for other children aged 0-17 in the family. Day care fees cover only a small part of the actual costs (about 15 % in year 2000).

#### 7.2 *Calculation of public day care fees, home care allowance and private day care allowance*

##### 7.2.1 *Calculation of public day care fees and gross benefit*

All amounts in the following table are monthly:

The rules for public day care fees.

Family size (parents + children < 7, max 2)	Income limit, FIM per month	Per cent of income exceeding income limit
2	5 150	11.5 %
3	6 350	9.4%

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4	7 540	7.9%
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If there are other children (under 18 years) than those who have been included when the family size is defined, 500 FIM/month/additional child will be deducted from the gross income before income-test. E.g. A couple with 4 , 8 and 10 years old children. Family size is 3. There will be 2 \* 500 FIM deduction from the gross income before income-test.

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 is 1 100 FIM/child/month. If the day care fee of a child amounts to less than 100 FIM, it is not paid.

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. The care allowance is 1 500 FIM per month for the first child under three years old, 500 FIM per month for other children under three years old and 300 FIM per month for children between three and six years old. Care supplement is means tested. The maximum amount is 1 000 FIM per month and it is payable for only one child. The family definition, income limits and per cent applied to income exceeding income limit are same as in public day care (see table above). The care supplement decreases as the income exceeding income limit increases. There is no similar income disregard for additional children as with day care fees.

#### The home care allowance supplement

Family size (parents + children<7, max 2)	Income limit (in FIM per month)	Reduction of care supplement, per cent of income exceeding income limit
2	6 890	11.5
3	8 480	9.4
4	10 070	7.9

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. (This benefit is not included in our calculations: We assume public day care). The rates and rules 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 700 FIM / child / month and the supplement is 800 / FIM / child / month. The income criteria and limits are the same as those that apply to home care allowance. The allowance is paid at 50% 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

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#### 7.2.2 *Income and earnings disregards*

Gross family income is taken into the income-test. E.g. child benefit and housing allowance are disregarded

#### 7.3 *Tax treatment of benefit*

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

#### 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 supplement to child benefit (200 Fim/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 FIM 669 per child per month. Since 1999 the rate has been same also for remarried providers. There is no means-test. The maintenance support is not taxable.

Note: Lone parents receive maintenance support (FIM 669 per child per month)

#### 10. **Tax system**

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

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## 10.1 Personal Income Tax Systems

### 10.1.1. Central government income taxes

#### 10.1.1.1. Tax unit

Spouses are taxed separately for earned income.

#### 10.1.1.2. Standard tax allowances

##### 10.1.1.2.1. 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 FIM 2 700 is granted.

##### 10.1.1.2.2. Main non-standard tax relief applicable to an AW

Interest: Interest 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 8 000 FIM.

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 of communication in excess of FIM 3 000 up to a maximum deduction of FIM 28 000.

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).

Travelling expenses and other work-related outlays are deductible only to the extent their total amount exceeds the amount of the standard deduction for work-related expenses.

#### 10.1.1.3. Rate schedule

Taxable income (FIM)	Tax on lower limit (FIM)	Tax on excess income in bracket (%)
66 000 - 85 000	50	14
85 000 - 117 000	2710	18
117 000 - 184 000	8470	24
184 000 - 325 000	24550	30

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325 000 - and over	66850	37
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### 10.1.2. Local income tax

#### 10.1.2.1. 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 2001, the tax rate varied between 15 and 19.75 per cent, the average rate being approximately 17.67 per cent.

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.

Tax calculations in previous editions of this report included the church tax which is imposed on the income of individuals who are members of the State Church (about 83 per cent of the population). The tax base and allowances of the church tax are identical to those of the municipal income tax. In 1999 the weighted average rate of the church tax was approximately 1.28 per cent. After 1993, Finland no longer includes receipts from its church tax in the annual data submitted for the OECD *Revenue Statistics*.<sup>2</sup> To enhance the consistency of the *Taxing Wages* and *Revenue Statistics* reports, it has been decided that the church tax will no longer be taken into account for the calculations in this report.

#### 10.1.2.2. Allowances in municipal income taxation:

An earned income allowance is calculated on the basis of taxpayer's chargeable wages and salary. The allowance amounts to 35 per cent of income exceeding FIM 15 000, to a maximum of FIM 9 800. The amount of the allowance is reduced by 3.5 per cent of the income exceeding FIM 75 000.

A basic allowance is granted on the basis of taxable income remaining when all other allowances have been subtracted. The maximum amount, FIM 8 800, is reduced by 20 per cent of the income exceeding FIM 8 800.

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2. See OECD, *Revenue Statistics* 1965 – 1999 (Paris, 2000), p. 31.

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

### *10.2.1. Employees' contributions*

#### 10.2.1.1. Rate and ceiling

In 2001, the rate of the sickness insurance contribution paid by an employee was 1.50 per cent.—The tax base for the sickness insurance contribution is the taxable income after tax allowances for municipal income tax purposes.

In addition there was an employees' pension insurance contribution which amounts to 4.5 per cent of gross salary and an employees' unemployment insurance contribution equal to 0.7 per cent of gross salary. These two contributions are deductible in income taxation. These two contributions are not levied on benefits.

#### 10.2.1.2. 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.

## **10.3. Universal Cash Transfers**

### *10.3.1. Amount for marriage*

None.

### *10.3.2. Amount for children*

The central government paid in 2001 the following allowances (FIM):

For the first child	6 420
For the second child	7 884
For the third child	9 340
For the fourth child	10 812
Fifth and subsequent child	12 276

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The child subsidy for a single parent is increased by an annual amount of FIM 2 400.

#### ***10.4. Main Changes in the Tax/Benefit System Since 1999***

In January 2001 the first central government income tax brackets was removed, and the remaining brackets were adjusted by 3-5 per cents. The central government marginal tax rates were lowered by 1 percentage point. The rate of the employees'unemployment insurance contribution was decreased from 1.0 to 0.7 per cent. The percentage value for the earned income deduction of wage income was raised from 20 per cent to 35 per cent. The basis for the standard deduction for work-related expenses was changed from 3 per cent of the wage or salary to full amount of wage or salary. The maximum amount of the deduction was raised from FIM 2400 to FIM 2700.

### **11. Part-time work**

#### ***11.1 Special benefit rules for part-time work***

See 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 FIM 375 per month. The partial allowance is taxable income.

#### ***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***

In January 2002 the child supplement of Labour Market Support was increased. It now equals the child supplements of basic unemployment benefit and earnings related benefit.

In March 2002 both Labour Market support and basic unemployment benefit were increased. This also influenced earnings related benefit. The first percentage rate of earnings related part was also increased to 45 per cent from 42 (see 2.2.1).

The maximum housing costs covered by housing allowance were increased for 2002.

Social assistance: Since April 2002 20 per cent of earnings up to the maximum amount 100 € (/month/family) will be excluded from the income-testing. The law will be in force until 31.3.2005.

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In January 2002 the public day care fees were revised. The maximum amount of the first child was increased to 200 €/month. New maximum amount (180 €/month) for second child in day care was introduced. The income limits were increased.

## **12.2 *Policy changes announced***<sup>3</sup>

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<sup>3</sup> The changes of benefit rules presented here may not have been ratified and their reading in Parliament may be unfinished.

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