

# Local government tax revenues in Finland

Tallinn 13.11.2018

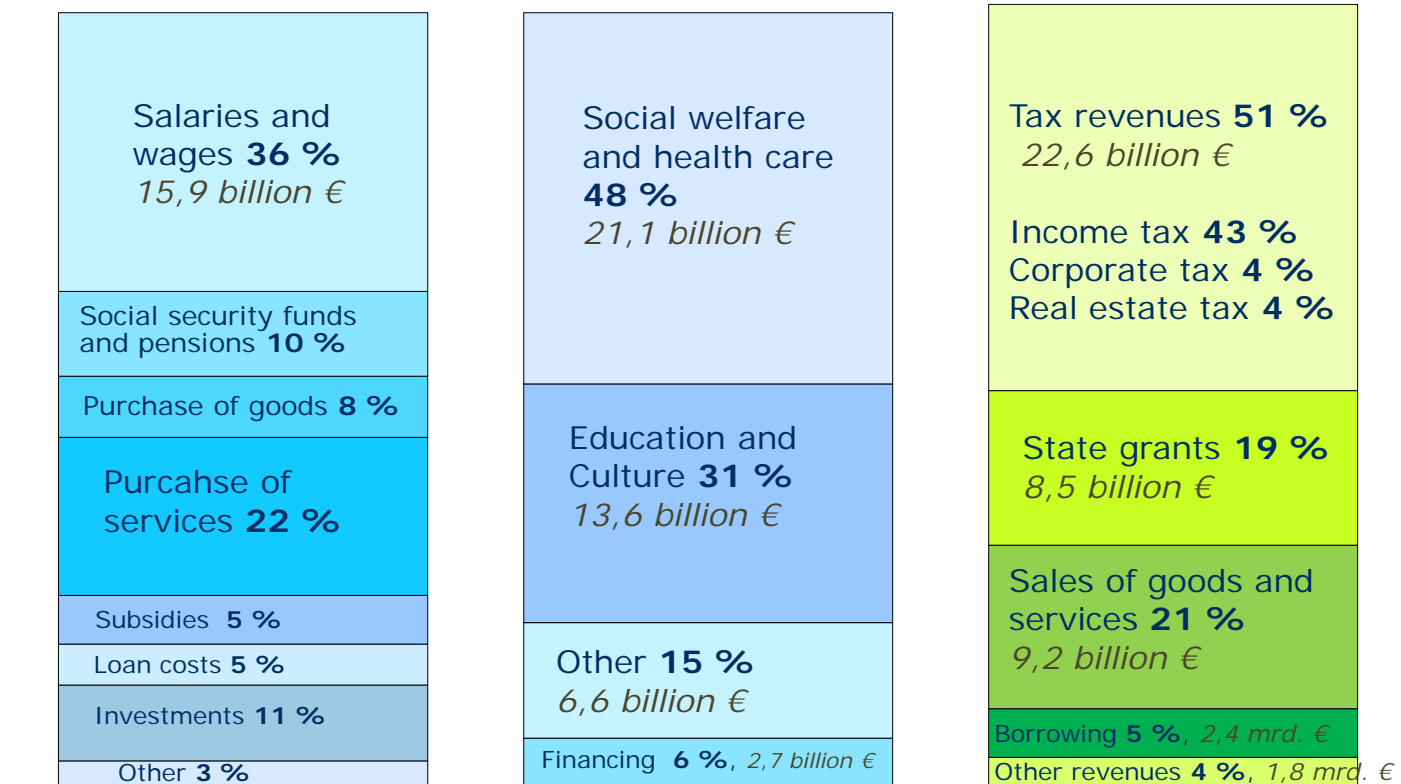
Henrik Rainio,  
Director, Municipal Finances  
The Association of Finnish Local and Regional Authorities



# Municipalities in Finland

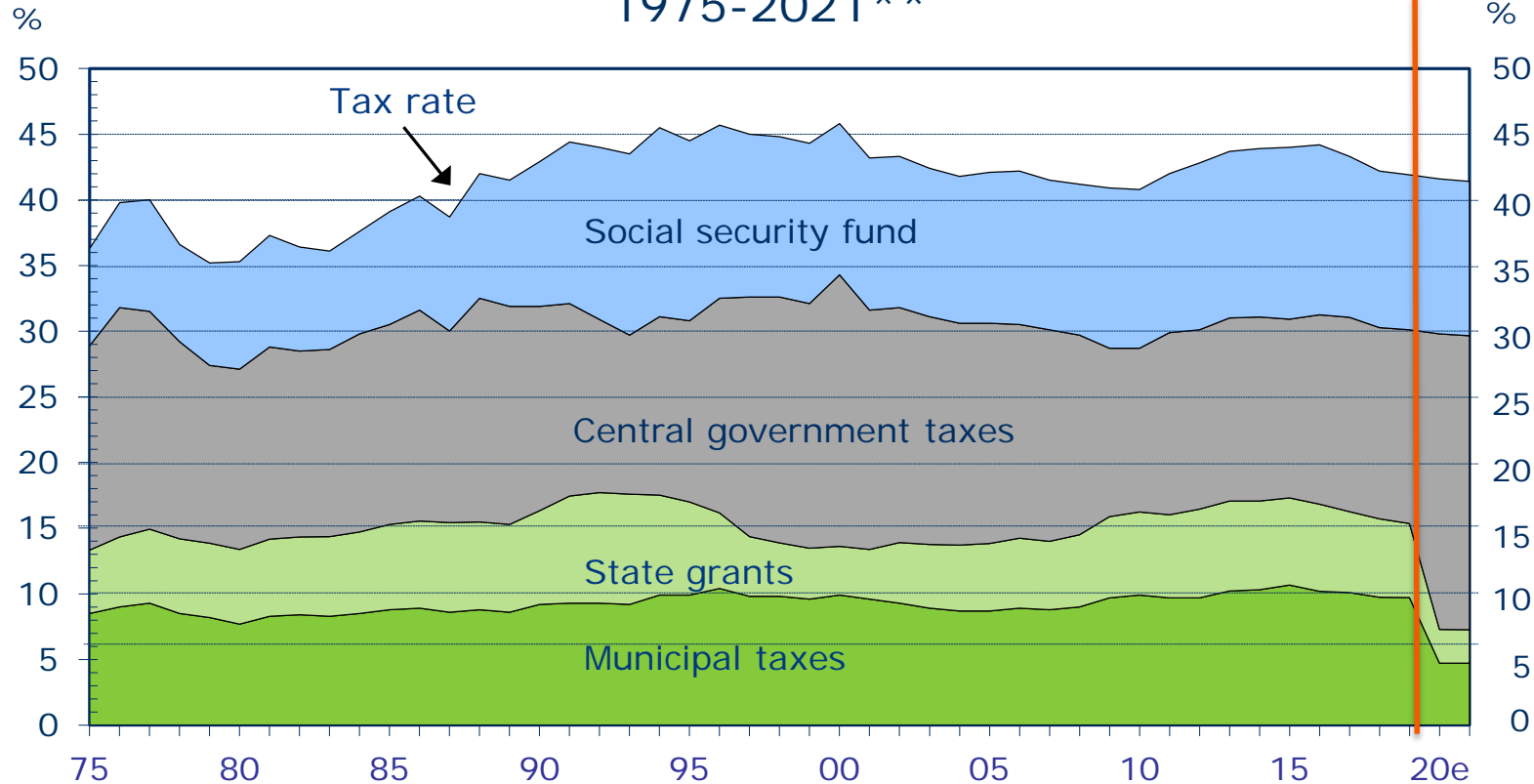
- The responsibility of municipalities for social services, healthcare, educational and cultural services, public infrastructure as well as the organisation of other welfare services is **extremely significant** by international and also European standards.
- Local government accounts for **two-thirds** of public consumption in Finland.
- The ratio of the total expenditure of local government to GDP has been **about 20%** in recent years.
- Local government employs about **one fifth** of the total Finnish labour force.
- Municipalities have the right to tax the earned income of their inhabitants (municipal income taxation) and municipalities are paid tax on the basis of the value of real property (tax on real property). Municipalities are also entitled to a share of corporate income tax.

# Total municipal sector expenditure and income for 2017

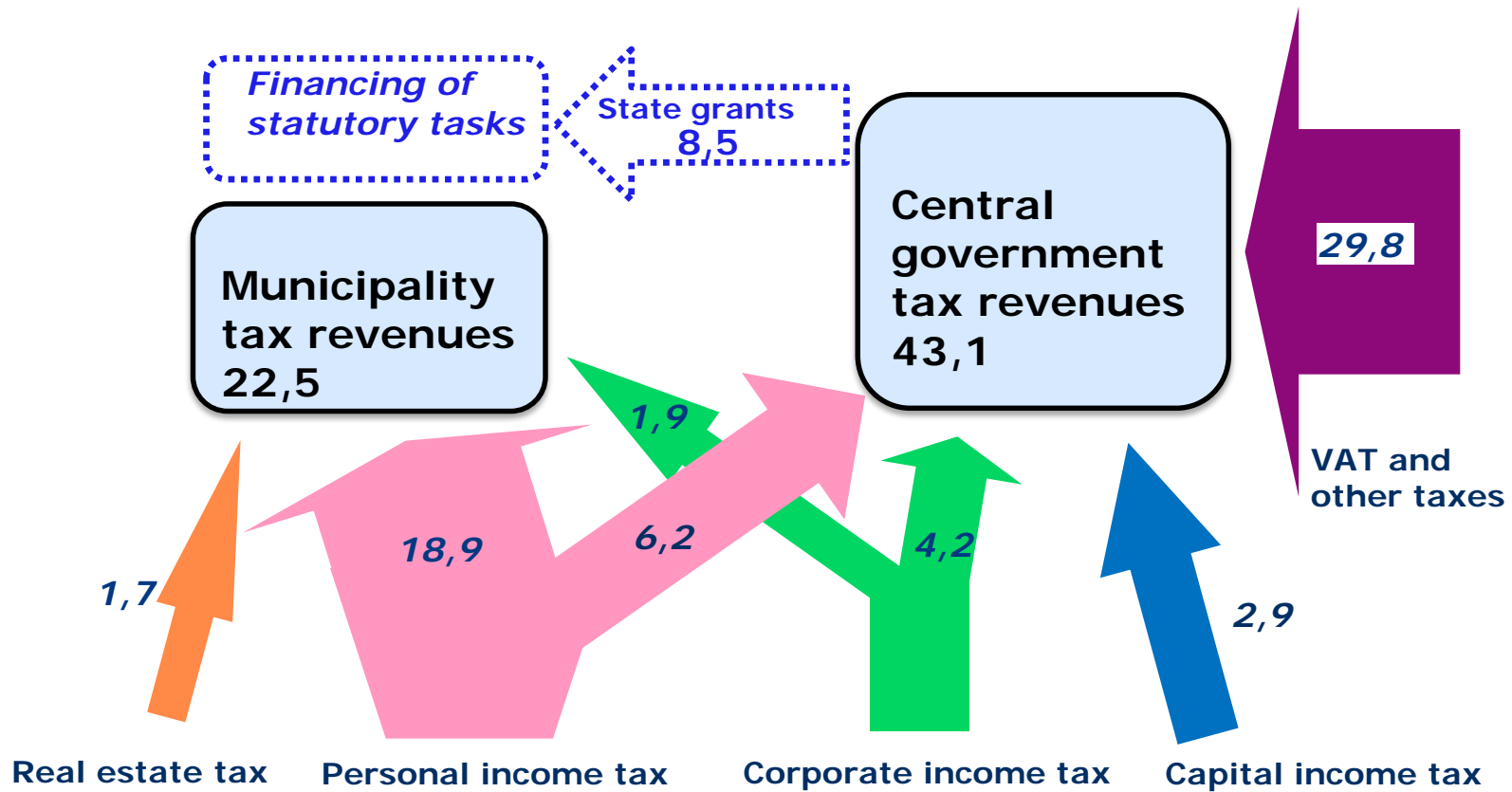


External income 44,8 billion € and expenditure 44,3 billion €

# Taxes/GDP in Finland, % 1975-2021\*\*

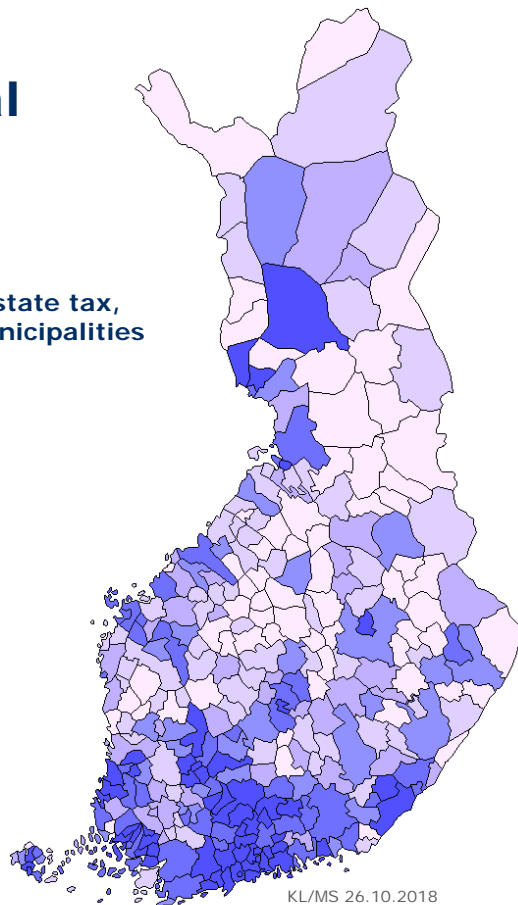
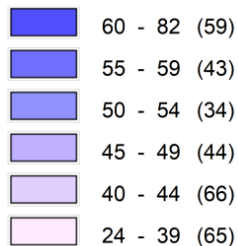


# Central government and municipal tax financing 2017, billion €



# Tax revenues % of total income 2017

Tax revenues (personal income tax, real estate tax, corporate income tax) as percentage of municipalities total revenues.



## Highest tax income:

1. Kauniainen (82,5 %)
2. Kirkkonummi (78,3 %)
3. Espoo (78,2 %)
4. Masku (74,8 %)
5. Vihti (74,6 %)

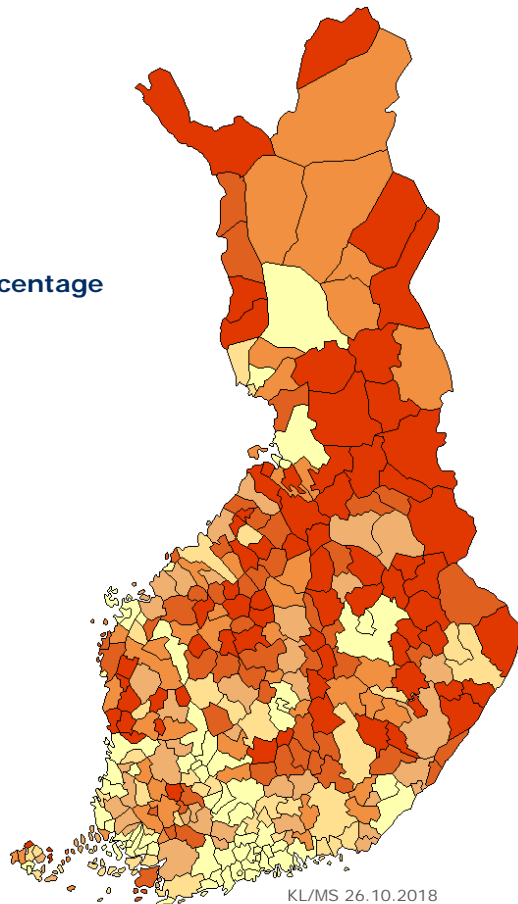
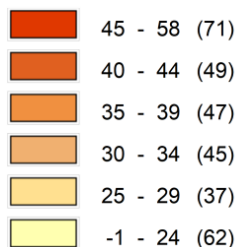
## Lowest tax income:

307. Virrat (27,9 %)
308. Pihtipudas (27,9 %)
309. Ranua (27,6 %)
310. Kannonkoski (27,2 %)
311. Miehikkälä (24,3 %)

KL/MS 26.10.2018  
Lähde: Tilastokeskus, 2018  
Aluejaot © MML, 2017

# State grants % of total income 2017

State grants % of total income 2017 as percentage of municipalities total revenues.



## Highest state grants:

1. Ranua (58,1 %)
2. Rääkkylä (54,3 %)
3. Vesanto (53,6 %)
4. Kärsämäki (53,2 %)
5. Geta (53,1 %)

## Lowest state grants:

307. Pirkkala (8,65 %)
308. Maarianhamina (8,24 %)
309. Helsinki (4,50 %)
310. Espoo (1,91 %)
311. Kauniainen (-0,01 %)

KL/MS 26.10.2018  
Lähde: Tilastokeskus, 2018  
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## Local government tax revenues in 2016-2019, billion €

Tax type	2016	2017	2018	2019
Municipal income tax	18,89	18,92	18,88	19,96
Corporate tax	1,54	1,90	1,86	2,06
Real estate tax	1,67	1,72	1,82	1,86
<b>Total tax revenues</b>	<b>22,10</b>	<b>22,54</b>	<b>22,56</b>	<b>23,88</b>
<b>Change, %:</b>				
Municipal income tax	2,0	0,2	-0,2	5,7
Corporate tax	-6,3	23,4	-2,1	10,8
Real estate tax	4,1	3,0	5,8	2,2
<b>Total tax revenues</b>	<b>1,5</b>	<b>2,0</b>	<b>0,1</b>	<b>5,9</b>
Average income tax rate	19,85	19,90	19,86	19,86
Corporate tax rate	20,0	20,0	20,0	20,0



# Municipal income tax

- The municipal income tax is the most important source of revenue for municipalities.
- Municipalities decide the tax rate.
- The central government decides on deductions.
- The municipal income tax is the corner stone of local self government. The tax encourages municipalities to be effective and use the budget wisely, because otherwise they need to raise the taxes of the residents.

# Municipal income tax rates 2018

## The average tax rates:

- weighted by income 19,86 %
- arithmetic mean 20,76 %

### Highest rates

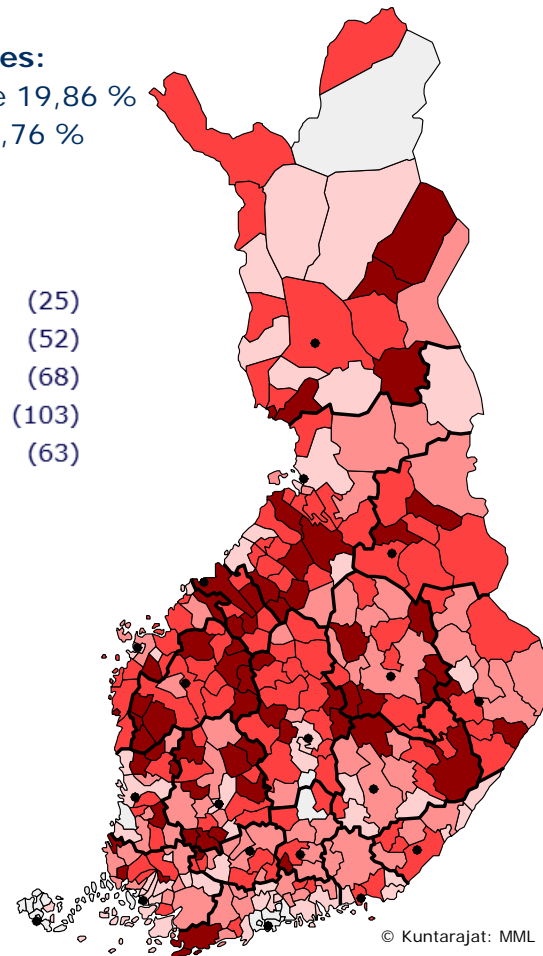
Jämijärvi	22,50	Punkalaidun	22,00
Reisjärvi	22,50	Rautalampi	22,00
Teuva	22,50	Rautavaara	22,00
Pelkosenniemi	22,25	Ruovesi	22,00
Vehmaa	22,25	Raasepori	22,00
Vimpeli	22,25	Savonlinna	22,00
Haapajärvi	22,00	Siikainen	22,00
Haapavesi	22,00	Siikajoki	22,00
Halsua	22,00	Simo	22,00
Hankasalmi	22,00	Siikalatva	22,00
Honkajoki	22,00	Tuusniemi	22,00
Humppila	22,00	Veteli	22,00
Hämeenkyrö	22,00	Ähtäri	22,00
Isojoki	22,00		
Karjajoki	22,00		
Kaskinen	22,00		
Kauhajoki	22,00		
Konnevesi	22,00		
Kruunupyö	22,00		
Multia	22,00		
Mänttä-Vilppula	22,00		
Orivesi	22,00		
Paltamo	22,00		
Parkano	22,00		
Pieksämäki	22,00		

### Lowest rates

Jomala	16,50
Brändö	16,75
Lemland	16,75
Kauniainen	17,00
Saltvik	17,00
Hammarland	17,25
Föglö	17,50
Geta	17,50
Maarianhamina	17,50
Espoo	18,00
Eurajoki	18,00
Helsinki	18,00
Sottunga	18,00
Eckerö	18,50
Luhanka	18,50
Kustavi	18,75
Finström	19,00
Inari	19,00
Kumlinge	19,00
Naantali	19,00
Sysmä	19,00
Vantaa	19,00
Vårdö	19,00
Kerava	19,25
Sipoo	19,25

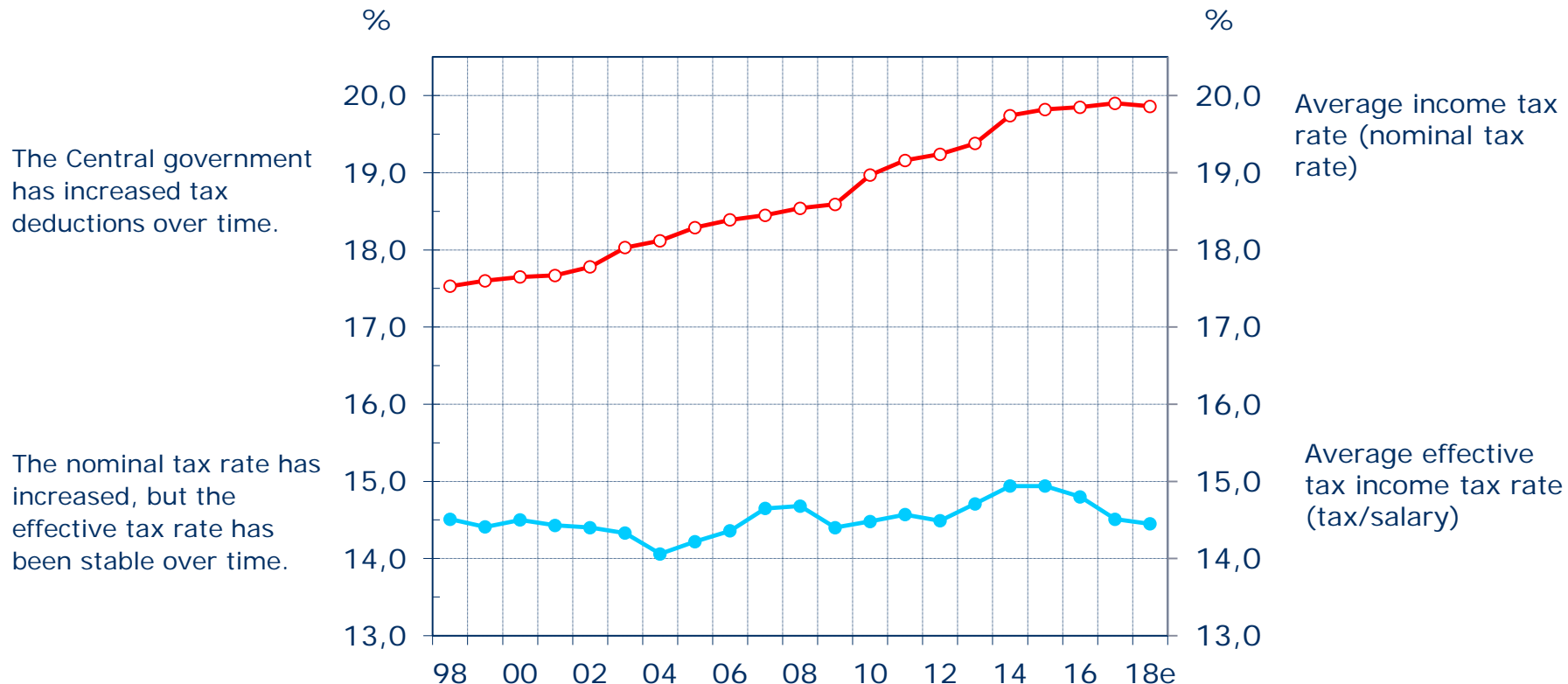
### Municipal tax rate

16,50 - 19,25	(25)
19,50 - 20,25	(52)
20,50 - 20,75	(68)
21,00 - 21,50	(103)
21,75 - 22,50	(63)



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# Local government income tax rate 1998-2018



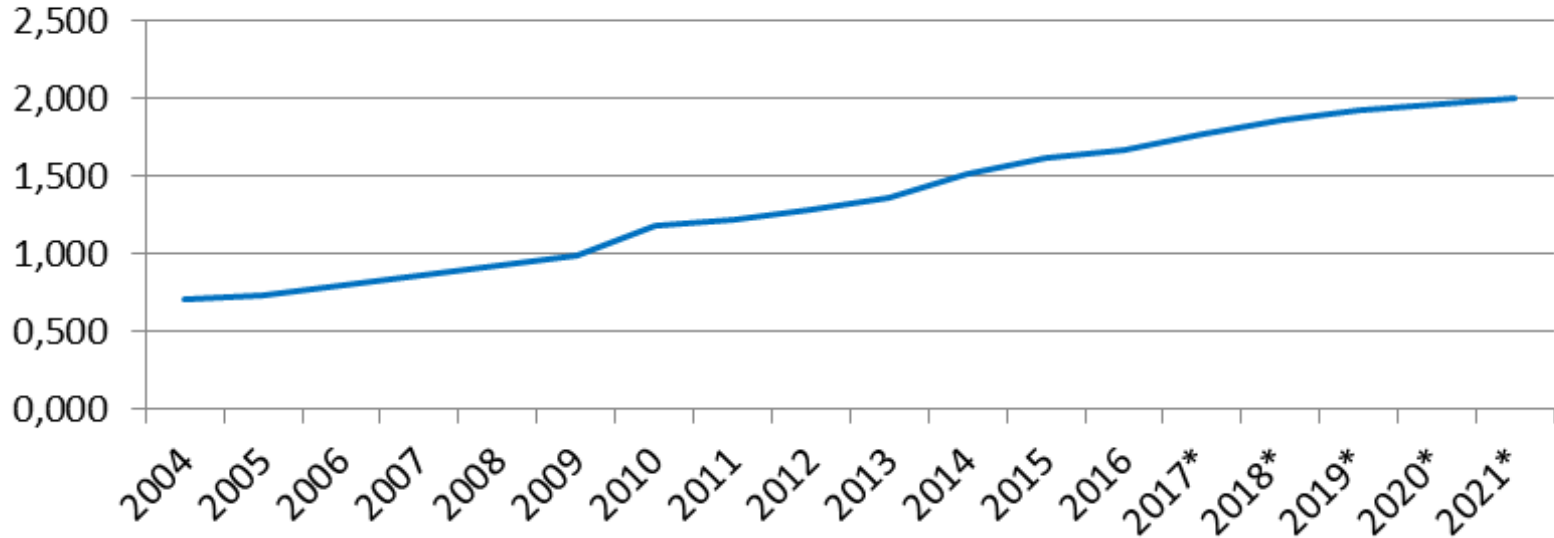
# Real estate tax

- The real estate tax is a fully municipal tax. Traditionally the tax has been relatively low.
- Municipalities can set a tax rate for different kinds of buildings within the limits defined by law.
- The role has increased during last years due to central government actions and local government decisions.
- The real estate taxation will be fully modernized from 2022 →

# Real estate tax rates

- Real estate tax is set by the local municipal council and is calculated as a percentage of the taxable value of the property.
- Municipalities can set their own tax rates within the ranges
  - » 0.93% – 2,00 % for general real estate tax
  - » 0.41% – 1.00 % for permanent residences
  - » 0.93% – 2,00 % for other residences
  - » 2.00% – 6.00 % for unbuilt sites

## Real estate tax revenue 2004 – 2021 (billion €)



# Share of corporate taxation

- The corporate income tax rate in Finland is 20 %.
- Municipalities share of the tax revenue is 31,35 % and the central governments share is 68,65 %.
- The municipal share is divided to each municipality based on 1) number of employees working in the municipality and 2) forestry income.
  - » For example: if Rovio has employees only in Espoo, the corporate tax paid by Rovio will increase the tax incomes of Espoo.
  - » For example: if Neste Oil has employees in Porvoo and Espoo, the corporate tax paid by Neste Oil will increase the tax incomes of Porvoo and Espoo based by the number of employees in each municipality.
  - » The forestry income is an old compensation for the big tax reform in the early 90s.
- Because of the corporate tax share, municipalities have an incentive to increase the operating circumstances for companies.

# Thank you!

Henrik Rainio  
Director, Municipal Finances

The Association of Finnish Local and Regional  
Authorities (Suomen Kuntaliitto ry)

Toinen linja 14, 00530 Helsinki

+ 358 50 596 9635

[henrik.rainio@kuntaliitto.fi](mailto:henrik.rainio@kuntaliitto.fi)

