Helsinki Finland

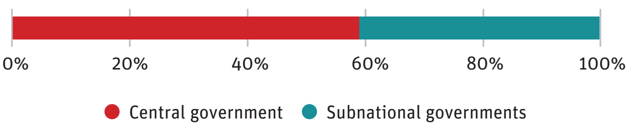
CITY:
0.6 mil. inhabitants

METROPOLITAN AREA
1.4 mil.
(+6.1% pop. change/5 years)

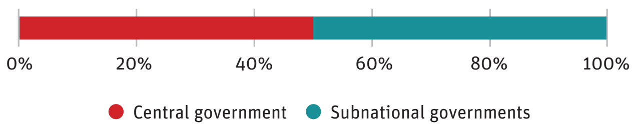
GDP: 143% of the average EU28 GDP
(-1.2% average annual change in GDP/5 years)

How local public finance systems work in Finland

PUBLIC REVENUE



CAPITAL EXPENDITURE



Finland **de facto has single level of subnational government** (SNG). In 2018, there were 311 municipalities in Finland. In recent years, Finland has undergone several reforms promoting municipal mergers and inter-municipal cooperations. The number of municipalities is therefore gradually declining (from 475 in 1976). (Finland also has 19 regions. None of them except Aland Island has its autonomus administration, but rather they are governed by joint municipal boards and funded by municipalities, the state and EU funds.)

The constitution gives municipalities the power to make decisions about their finances, e.g. the power to collect taxes. Government Act sets the rules for the administration and finances of municipalities, inter-municipal bodies and municipal companies. The Local Government Act also establishes that the Ministry of Finance is responsible for monitoring the local government finances and for taking into account the self-governing status of municipalities when creating all legislation concerning local government.

Although municipalities have great responsibilities in areas such as health and social care, **the share of municipalities in public investment is 55%**, which is currently below the OECD average of 57%. Municipalities are responsible for investment projects associated with education, health care, and technical and transportation infrastructure.

Their own sources of revenue (taxes, fees and other income) constitute approximately 70% of the SNG revenue and 15% of the GDP, which gives municipalities considerable autonomy. The share of taxes in SNG revenue is in line with the OECD average of 45%. As a share of the GDP, however, SNG tax revenue is higher than the OECD average (7% in 2016). Fees make up nearly one-fifth of SNG revenue, which is also above the OECD average (15% in 2016), while the share of transfers and subsidies is below the OECD average (37%).

During ongoing regional reforms, a new Act on regional financing has been proposed. The main objective of the reforms – closely tied with the reforms in health care and social care – is to make the central government responsible for financing the regions.

The majority of municipal taxes are own taxes. **Only one tax is shared with the central government: the corporate income tax. (7% of SNG tax revenue;** approx. 3% of the total SNG revenue). The corporate income tax divided among municipalities is regularly adjusted to match the economic situation in the municipalities (i.e. from 20% in 2003 to 32% in 2001 and 31.4% in 2018).

The central government has long considered replacing the current share of municipalities in the corporate income tax with increased grants from the central government. The municipalities have strongly resisted these proposals. Opposition is particularly strong in areas such as Helsinki, where the corporate income tax represents a major source of municipal revenue.

The main source of own tax revenue is municipal income tax (approx. 85% of the SNG tax revenue and 39% of the total SNG revenue). SNG revenue from personal income tax accounts for nearly 70% of the nationwide revenue from personal income tax; the base is set by the central government, but the municipalities have full control over the rate. The municipal income tax

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is a flat rate tax, although state government policy has made it more progressive by granting tax allowances for low income persons. Municipalities are compensated for the financial losses of these allowances through a grant system. In 2019, the municipal income tax rate ranged between 23% and 17%; the average rate was 21%.

Municipalities also collect property taxes (8% of local tax revenue; 3.5% of total SNG revenue, i.e. 0.8% of GDP). Property tax consists of five taxes the general real estate tax, the tax for permanent residential buildings, the tax for other residential buildings, the tax for power stations and tax for nuclear power stations. Municipalities can also levy a special tax on undeveloped areas; this tax is not required outside the 14 municipalities of the Helsinki metropolitan region, where the collection of this tax is compulsory. The most important property taxes are the general real estate tax and the tax for permanent residential buildings. **Municipalities are the sole recipients of property taxes revenues. Property taxes are collected by the central tax authority, but each municipality decides its own tax rate within a range set by the central government.**

Transfers from the central government are allocated to municipalities according to a formula, while the system is based on balancing revenue and expenditures (differences in anticipated municipal tax revenues and necessary expenditures for services). **Transfers are not earmarked and municipalities can use them in full at their discretion. Transfers may be a major source of revenue for municipalities with high service costs and low incomes** (transfers make up more than 50% of all their revenues). In practice, transfers are used for current expenditures.

Most other revenue comes from fees (21%). These include fees for health care, public services and public transport (elementary education is free). The remaining portion of SNG revenue consists of property income, rent and the sale of assets.

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.htm