Land and property taxation in Finland

Roundtable exchange on local finances and taxation for managers of departments of local finances of Local Government Associations

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Central and local government tax financing 2015, € billion
According to final accounts

Local government tax revenue 21.8

Central government tax revenue 39.9

Financing of statutory functions

Central govt. transfers 8.2

VAT and other taxes 28.0

Real estate tax 1.6

Income taxes 18.5

Corporate income tax 6.4

Capital income and wealth taxes 2.8
Municipal taxes in a nutshell 1(2)

The municipalities have the right to levy municipal tax
(The Constitution of Finland, Section 121 (3))

1) Municipal income tax (85 %)
- Local councils decide on tax percentage, not limited
- 2016: average 19.87%

2) Real estate tax (7,5 %)
- Local councils decide on tax percentage, within limits
  - For example 0.37-0.80% of the taxable value of a detached house
  - Undeveloped plots and power plants – higher taxation
  - Certain non-profit organisations can be given tax-free status
3) Municipalities’ share of corporate income tax (7.5%)

- Municipalities receive a share of corporation income tax, 30.92% in 2016

- An individual municipality’s share is assessed based on the taxable income of companies in the municipality’s area

- If a company or its affiliates have operations in more than one municipality, the municipalities’ share of corporate income tax revenue is divided between the municipalities in proportion to the number of company personnel in each municipality.
The real estate tax is based on

- **Tax base and limitations:**
  - Land and buildings, not waters, land used for agriculture or forestry is exempt from the base

- **Land and buildings are taxed separately**
  - \[ \text{Tax on land} = \text{taxable value of land} \times \text{land determined tax rate} \]
  - \[ \text{Tax on building} = \text{taxable value of building} \times \text{building determined tax rate} \]
The ranges taxes must be set for 2016 ja 2017

- Municipal councils determine the tax rates within a range defined by law:

  » The general real estate tax: 0,80 – 1,55 % → 0,93 – 1,80 %

  » The real estate tax rate for permanent residential buildings: 0,37 – 0,80 % → 0,41 – 0,90 %

  » The real estate tax for a non-profit association: 0,00 – 1,35 % → 0,00 – 1,80 %

  » The real estate tax rate for power plants (max.): 2,85 % → 3,10 %

  » The tax rate for other residential buildings may be no more than 1.00 % -point above the tax rate for a permanent home or the general real estate tax rate. In year 2017 this limitation expires and the general real estate range: 0,93 – 1,80% applies.

  » The real estate tax rate for vacant construction: 1,00 - 4,00 % → 2,00 – 6,00 %
Politics of real estate taxation

• The main goal in taxation is to increase the portion of real estate taxes in the tax revenues.
• The portion of real estate taxes in the tax revenues more than doubles due to the proposed Health and Social Services Reform (7,5 % → 17 %)
• As it’s best the real estate tax is effective: one cannot have an influence on it, it does not diminish incentives of working and it enhances the use of land.
• Cut down the taxation of work, increase real estate and environmental protection taxes
• A stable revenue for the funding of municipal services
• The tax base does not escape outside the border
Improvements to the real estate taxation

- Already done:
  » The broad tax base data available to the tax recipients
  » Reducing the delay of real estate tax clearance
  » Separate taxation of land and buildings

- Upcoming changes:
  » Update all the real estate information: delivery and transmitting of the data, possibility to scrutinize even better
  » Taxation of wind power parks
  » Renovate the appreciation methods of land and buildings
Renovate the appreciation methods

- Present appreciation method has proven to be acceptable and useable: it is based on building expenses on buildings and on market values of land
- In the renovation the determination criteria will be simplified and clarified (building type, -year, location, area)
- More accurate classification of building types and also some new types of buildings
- 6 price areas for building expenses: Taking account in value determination of buildings
- New indexes for yearly evaluation of regional expense development
- Age depreciation no more a necessity if a building is completely renovated (economic incentive will take care of buildings)
- The future criteria of appreciation: size, age, area and type of building
Thank you!

Kiitos!