

The annex has been updated on 2 September 2016 at 16.45. Changes in bold letters.

ANNEX 1

Selections from the 2017 budget proposal

Tax changes to strengthen and promote growth, employment and entrepreneurship

- Doing work will be encouraged by reducing taxation. In connection with the Competitiveness Pact, taxation of wage earners will be reduced by EUR 515 million. In addition, earned income tax criteria will be adjusted by a total of EUR 178 million in line with the Consumer Price Index. Tax reductions will be based on the 90% coverage of the Competitiveness Pact.
- Taxation of pension income will be correspondingly reduced, by a total of approximately EUR 135 million.
- The deductibility of interest on mortgages will be restricted further. Next year, the tax deductible proportion of interest expenditure will be 45%.
- The domestic help credit will be raised from 45% to 50% of the part of compensation for labour or service. Increasing the credit will promote demand and supply of domestic work services and therefore strengthen local economies.
- Incentives to engage in business activity will be strengthened by a new entrepreneur deduction. The level of the deduction will be 5% of business, agricultural and reindeer husbandry income. A deduction of similar size will be taken into account in the taxation of forestry.
- The liquidity of small companies will be increased by facilitating cash-based settlement of value-added tax. In addition, turnover limits granting entitlement to longer settlement periods of value-added tax will be raised.
- Changes-of-generation in businesses and farms will be promoted by reducing inheritance and gift taxation. Tax percentages will be reduced in the tax classes of the gift and inheritance tax scales, excluding the first band of the tax class I of the gift tax.
- Changes-of-generation in forest holdings will be facilitated by introducing a forest gift deduction. The measure will increase use of wood, promote entrepreneurial forestry and increase holding sizes.
- Mining will be transferred to within the scope of the lower electricity tax.
- **A legislative project will be initiated in autumn 2016 to remove the distinction between different sources of income with regard to limited companies as concerns the Income Tax Act and Business Income Tax Act, and so that the provisions would enter into force in 2018. An expert group will be appointed to support the bill drafting.**

Excise duties on sweets and tobacco

- The tobacco tax will be gradually increased in 2016–2019. In 2017 the tobacco tax will be increased in two stages, at the beginning of the year and at the beginning of July. In addition, with the new Tobacco Act electronic cigarettes will enter the market and also within the scope of taxation.
- The excise duty on sweets and ice cream will be abolished, because the European Commission has suspected that the tax has constituted prohibited state aid for products that fell outside the scope of the tax. In the same context, changes will be made to the tax base of the excise duty on soft drinks.

Transport taxation

- An annual tax on registered boats and light motor vehicles will be introduced from 1 May 2017. The tax will increase tax revenue by approximately EUR 50 million.
- The gradual easing of car taxation will continue. The car tax will be reduced annually by a total of EUR 182 million during the parliamentary term. The reduction will focus on cars with low emissions.
- A tax increase on transport fuels will increase tax receipts by approximately EUR 100 million. The increase will be made to cover the lowering impact on tax revenue of the abolition of the excise duty on sweets.
- The tax on heating, power plant and working machine fuels will be increased, which will increase tax receipts by EUR 52 million.
- The motor vehicle tax will be increased. The measure will increase the motor vehicle tax on passenger cars by approximately EUR 36.50 per year.

Other taxation

- The real-estate tax will be increased by EUR 50 million in addition to the policy outlined in the Government Programme. Approximately EUR 9 million of the increase will be directed at real-estate tax on unbuilt building land zoned for housing use. The remainder of the increase will be realised by increasing the general real-estate tax and real-estate tax on residential buildings.
- The possibility of the real-estate taxation of wind farms will be studied. The study will take into account the neutrality of different forms of energy. The aim is that possible changes may be introduced in 2018.

Changes in appropriations

- As Finland celebrates the centenary of its independence, the Finnish Government aims to invest once again in services for its war veterans. A particular focus will be on services supporting living at home. Free outpatient services provided at home for front-line veterans will be expanded. Supply will be expanded to cover all veterans living at home who need outpatient services. In addition, the decision to reduce the degree of disability limit of disabled war veterans (15% -> 10%) will be brought forward and will come into force from the beginning of 2017. Currently, EUR 10 million is spent on outpatient services provided at home for front-line veterans. On top to this, additional funding totalling EUR 20 million will be directed into the services in 2017, a total of EUR 15 million in 2018 and a total of EUR 5 million in 2019, i.e. an overall total of EUR 40 million.
- Unemployment security will be reformed in a more active way that supports employment. The use of unemployment benefits will be expanded to finance mobility grants, start-up grants and wage subsidies. The potential uses of start-up grants will be expanded. The number of people receiving wage subsidies will grow significantly. As part of the reform, the expenses compensation of students studying independently on unemployment benefit will be abolished, which will save approximately EUR 29 million in central government expenditure. Paying expenses compensation for the time of a trial work placement to young people lacking vocational education will increase central government costs by EUR 7 million.

- To support social and health care services reform as well as regional government reform, an additional EUR 41 million will be allocated to, among other things, the costs of interim governance, the establishment of the counties, the establishment of the counties' joint service centres and support for ICT changes.
- In 2017 five new transport projects will be launched (Luumäki-Imatra railway track, Highway 4 Oulu-Kemi, Highway 5 Mikkeli-Juva, Highway 12 Lahti southern by-pass and Helsinki-Turku, further planning of high-speed rail link). Appropriations totalling EUR 47 million are proposed for the projects in 2017. Additional funding for basic transport infrastructure to reduce the repair debt will grow by EUR 100 million. In addition, EUR 104 million of the funding reserved for new projects will be transferred to these purposes.
- Additional funding of approximately EUR 40 million will be allocated to enhance digital learning environments in tertiary education, to improve opportunities for all-year-round learning, and to promote scientific work done by young researchers.
- A total of EUR 90 million in additional funding will be allocated to municipalities for the development of informal and family care in accordance with the law that came into force in 2016. Respite arrangements and services for informal carers and family carers will be developed and family carer remuneration will be increased. Moreover, the measures are expected to generate savings in municipalities' expenditure due to a reduction in the need for more expensive institutional care. A EUR 59.6 million net increase will be taken into account in the scaling of the central government transfer.
- A central government transfer increase of EUR 4.8 million will be allocated to expanding services brought to the homes of elderly people.
- Emergency health and social services as well as specialised medical care will be centralised in 12 hospitals. As a result, the central government transfer to municipalities will be reduced by approximately EUR 19 million.
- The vacirella (chickenpox) vaccine will be added to the national immunisation programme. The vaccine is expected, in practice, to remove chickenpox from Finland and save approximately 80,000 working days and EUR 13.6 million in costs arising from parents' absences from work.
- The level of lending compensation payable for lending from public libraries will be raised to EUR 15.6 million in 2017 (including value-added tax). This will mean that the lending compensation payable to authors of copyright works will be increased to the level of other Nordic countries in the manner required by Parliament.
- A total of EUR 5.8 million will be allocated in 2017 to implement the national genome strategy, for example the establishment of the Genome Centre and the National Cancer Centre.
- To achieve a good ecological state for the Baltic sea, its protection will be continued by circular economy means, among others. The marine research vessel Aranda will be refurbished. In addition, assistance will be given for the acquisition of the Keep the Archipelago Tidy Association's new waste management vessel. Clearly more significant measures will be targeted at safeguarding migratory fish stocks. Hossa, the national park commemorating Finland's 100th year of independence, will be opened in the summer. To combat climate change, there will be a shift from fossil imported energy to domestic renewable energy. Just over EUR 52 million of key project funding will be allocated next year to achieve these goals.

- To remove incentive traps, the young people's rehabilitation allowance and the vocational education rehabilitation allowance payable to young people will be increased to the level of the guaranteed pension, and the upper age limit of the rehabilitation allowance will be raised. The proposal will increase government expenditure by EUR 17.4 million.
- To improve the competitiveness of Finnish industry, a compensation system for indirect costs of emissions trading will be introduced in 2017. The compensation will be implemented at a level amounting to 50% of the maximum level of support under EU state aid rules. The appropriation requirement for this is estimated to be EUR 43 million in 2017–2019 and EUR 46 million in 2020.
- To safeguard the operational capacity of the Criminal Sanctions Agency and to maintain the prison network, additional funding totalling EUR 3.7 million will be allocated in 2017.
- An additional appropriation totalling EUR 5 million will be allocated to the Police in 2017 to increase automatic traffic control and combat the shadow economy. An additional EUR 2 million will be allocated to the operations of the Finnish Security Intelligence Service. A sum of EUR 0.4 million is proposed to increase starting places in Police training. An additional EUR 2 million is proposed for emergency response centre operations and EUR 2 million will be allocated to the Border Guard to implement EU obligations.
- The Government will appoint a working group to prepare alternative models for allocating additional resources to tertiary education research and innovation activity that supports conditions for sustainable growth as well as for utilising research results, taking into account the goals set in the Government Programme for the development of tertiary education and research. The issue will be decided on in the next General Government Fiscal Plan.
- An appropriation of EUR 20 million in 2017 is proposed for the reform of teachers' basic and further education as part of the key project for knowledge and education. The aim is that every teacher will be guaranteed the opportunity to develop their expertise throughout their careers.
- Finland will be Chair of the Arctic Council in 2017–2019. A total of EUR 1.8 million will be allocated to Baltic Sea, Barents and Arctic region cooperation, which is EUR 0.2 million more than in 2016. The objective is also to promote the channelling of international funding to Finland for important projects.
- A saving of just under EUR 200 million will be directed at index-linked expenditure.
- As a consequence of the Competitiveness Pact, central government operating expenditure will be reduced due to changes in the payment of social insurance, reductions in holiday bonuses and an extension of working hours. Central government transfers to municipalities will be reduced due to a saving arising from reductions in holiday bonuses and the extension of working hours. The extension of working hours will have no cost impact on the education and culture sector. The reduction of central government transfers in the central government funding of private education organisers and cultural actors will be implemented only to correspond with the change in cost level. Central government funding for universities and universities of applied sciences will be reduced as a result of the lowering of employers' payments. The decrease in central government transfers related to reductions in holiday bonuses will not apply to private organisers of education nor to cultural actors.
- The duration of earnings-related unemployment security will be cut in line with an earlier decision; the impact on general government finances will be EUR 69 million.

- Students will be transferred to within the scope of the general housing allowance as of 1 August 2017. As a result of the reform, students will have the same status as recipients of the housing allowance as others on low incomes. The appropriation requirement for the financial aid for students' housing supplement would decrease by approximately EUR 115 million in 2017 and by EUR 251 million in 2018. General housing allowance costs would increase as a result of the transfer by EUR 138 million in 2017 and by EUR 307 million in 2018. Social assistance expenditure is expected to decrease due to the reform by EUR 7.5 million in 2017 and annually by EUR 15 million, of which the proportion of central government funding is one half. The additional costs arising from the transfer of students' housing allowance is intended to be covered from general housing allowance expenditure, such that general government expenditure does not increase as a result of the reform. To achieve the savings, the maximum housing expenses of the general housing allowance will not be increased in 2017 and the maximum housing expenses of municipality groups 3 and 4 will be reduced by 3%. The reform will increase equality in housing support. The reform would improve in particular the level of housing allowance of those on low incomes living alone and students who pay high housing expenses. The coordination problems of the housing allowance system would disappear in situations where a person transfers from one housing allowance to another. The reform also simplifies the application for as well as the granting and adjustment of financial aid for students. In addition, the reform would solve special problems relating to financial aid for students, such as summer breaks in the housing supplement.
- A structural reform will be made to financial aid for students that will generate a saving of EUR 47 million in central government expenditure. The reform will come into force in August. In the reform, the levels of the study grant will be standardised, the grant period will be shortened and the central government guarantee for student loans will be increased. After the reform, parents' income will not reduce the amount of the study grant with respect to 18 and 19 year-old upper secondary education students that live independently. In addition, a student's own income limits will be linked to the Index of Wage and Salary Earnings. The increase in the amount of study grant and housing supplement recoverable on the basis of a student's own income will be moderated from 15% to 7.5%.
- A saving of EUR 190 million will be directed at vocational upper secondary education and training. The saving is connected to the extensive reform of vocational education.
- The pharmacy levy compensation for the University of Helsinki and the University of Eastern Finland will be discontinued, saving EUR 30 million.
- The impact of savings measures that entered into effect earlier, for example with respect to job alternation leave, drug reimbursements, specialised medical care, Tekes grants and loans as well as central government operating expenditure, will grow.
- Expenditure relating to asylum seekers will decrease by approximately EUR 180 million in 2017 compared with 2016. The number of asylum seekers is expected to be 10,000 in 2016 and in 2017. The proportion of asylum seekers receiving a favourable asylum decision is expected to be 24% in 2016 and 30% in 2017.