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***Tax Expenditures in Finland***

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## **TAX EXPENDITURES IN FINLAND**

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<sup>1</sup> Appendix has not been acted upon by the Government; intended as background material for budget proposal

Translated by John Rogers and Andrew Lightfoot

## FOREWORD

This report, which is a reprint of Appendix 2 to the Government proposal for the 1998 State Budget, contains a description of public support given through the tax system, i.e. tax expenditures. The calculations were performed using VATT's TUJA and YRI models and MATURE databases for personal taxation, company taxation and agricultural taxation respectively, and other information sources. The tax expenditure calculations were performed by the following senior researchers: Heikki Viitamäki and Esko Mustonen (personal taxation), Timo Rauhanen and Teuvo Junka (indirect taxation), Tuomo Heikkilä (agriculture and forestry) and Outi Kröger (company taxation). The report was prepared for publication by research assistant Sari Virtanen.

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## TAX EXPENDITURES IN FINLAND

Support rendered by means of the tax system results from tax concessions granted in the normal tax system. The purpose of tax expenditures is to support the taxpayer or, indirectly, other actors in the economy. The principle applied in the tax expenditure calculations presented here are described in the Ministry of Finance's publication "Verotuet Suomessa" (1988)<sup>2</sup>. The calculations are published annually as an appendix to the State Budget Proposal. In the present publication, the most recent year covering all the forms of taxation is 1995.

The legislative changes in personal, agricultural and business income taxation enacted in 1995 did not significantly affect the overall level of tax expenditures. In respect of indirect taxation, on the other hand, tax expenditures increased by FIM 1.3 billion. Two factors were responsible for this. First, the reduced tax rates in the new value added tax system only partially compensated the subsidy resulting from exemption from turnover tax. Second, as a consequence of the removal of hidden turnover tax, tax expenditures nonetheless increased.

Analysed by spending category, most tax expenditure was directed at social security. Total expenditure in this category was FIM 17 billion, an increase of FIM 900 million over 1994. The largest individual tax expenditures - the pension income deduction in municipal taxation, the deduction of employees' statutory pension contributions and the tax exemption of child benefits - accounted for 70 per cent of tax expenditure in this category.

Housing and environment accounted for approximately FIM 10 billion of tax expenditures, consisting largely of the deduction of interest expenses on housing loans and the tax exemption of capital gains and imputed rent for owner-occupied dwellings.

Tax expenditure for industry and business remained at the 1994 level, totalling over FIM 5 billion. The majority of tax expenditures, totalling FIM 3.6 billion, were granted on the basis of the provisions governing company depreciations. The changeover to value added tax resulted in tax expenditure of FIM 300 million.

Tax expenditure in respect of agriculture and forestry in 1995 was slightly under FIM 3 billion. The introduction of value added tax reduced tax expenditure in this category by almost half compared with the previous year. In 1995 the reduced tax rate for foodstuffs resulted in FIM 2.3 billion less tax expenditure than under the previous turnover tax-related expenditures, the most significant of which was the deduction for primary products.

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<sup>2</sup> Available only in Finnish, English summary.

Value added tax was almost solely responsible for tax expenditure in respect of transport and communication. Total tax expenditure was FIM 1.6 billion, FIM 800 million less than previous year.

Tables 1-4 summarize tax expenditures and transfer payments by spending category. Table 5 itemizes individual tax expenditures.

When considering the significance of the figures, it must be borne in mind that the discontinuance of tax expenditures does not necessarily increase tax revenues by a corresponding amount since tax expenditures affect prices and the behaviour of taxpayers.

Table 1. Economically significant tax expenditures by spending and tax category  
1994-1995, FIM million \*

|                                | Income, wealth<br>and related taxation |       | Taxation of business<br>and agriculture |      | Indirect taxation |      |
|--------------------------------|--|-------|---|------|-------------------|------|
|                                | 1994                                   | 1995  | 1994                                    | 1995 | 1994              | 1995 |
| General administration         | 100                                    | 100   | -                                       | -    | -                 | -    |
| Public order                   | -                                      | -     | -                                       | -    | -                 | -    |
| Defence                        | -                                      | -     | -                                       | -    | 200               | -    |
| Education, science and culture | 800                                    | 800   | -                                       | -    | -                 | -    |
| Social security                | 16400                                  | 17300 | -                                       | -    | 30                | 30   |
| Health care                    | -                                      | -     | -                                       | -    | 400               | 400  |
| Housing and environment        | 10200                                  | 10100 | -                                       | -    | 900               | -    |
| Labour force                   | -                                      | -     | -                                       | -    | -                 | -    |
| Agriculture and forestry       | 20                                     | 200   | 1300                                    | 1200 | 3800              | 1300 |
| Transport and communication    | 200                                    | 200   | -                                       | -    | 2200              | 1400 |
| Industry and business          | 1800                                   | 1600  | 2900                                    | 3500 | 700               | 200  |
| Other expenditures             | 1100                                   | 1000  | -                                       | -    | -                 | -    |
| Miscellaneous items            | 4200                                   | 3700  | -                                       | -    | -5400             | 800  |

\* Figures generally rounded to nearest 100 million. Tax penalties subtracted from tax expenditures.  
A negative figure indicates that penalties exceed expenditures.

Table 2. Economically significant tax expenditures by spending category and taxing body  
1994-1995, FIM million \*

|                                | Central government |      | Other taxing bodies |       | Total |       |
|--------------------------------|--------------------|------|---------------------|-------|-------|-------|
|                                | 1994               | 1995 | 1994                | 1995  | 1994  | 1995  |
| General administration         | 35                 | 35   | 35                  | 35    | 70    | 70    |
| Public order                   | -                  | -    | -                   | -     | -     | -     |
| Defence                        | 200                | -    | -                   | -     | 200   | -     |
| Education, science and culture | 400                | 400  | 400                 | 400   | 800   | 800   |
| Social security                | 5300               | 5900 | 11100               | 11400 | 16400 | 17300 |
| Health care                    | 400                | 400  | -                   | -     | 400   | 400   |
| Housing and environment        | 3800               | 2800 | 7300                | 7300  | 11100 | 10100 |
| Labour force                   | -                  | -    | -                   | -     | -     | -     |
| Agriculture and forestry       | 4400               | 2000 | 700                 | 700   | 5100  | 2700  |
| Transport and communication    | 2300               | 1500 | 100                 | 100   | 2400  | 1600  |
| Industry and business          | 3400               | 3400 | 2000                | 1900  | 5400  | 5300  |
| Other expenditures             | 1100               | 1000 | -                   | -     | 1100  | 1000  |
| Miscellaneous items            | -4100              | 1900 | 2800                | 2600  | -1200 | 4400  |

\* Figures generally rounded to nearest 100 million. Tax penalties subtracted from tax expenditures.  
A negative figure indicates that penalties exceed expenditures.

Table 3. Economically significant tax expenditures in central government taxation and government transfer payments by spending category 1994-1995, FIM million \*

|                                | Tax expenditures |      | Transfer payment |         | Change 95/94, %  |                   |    |
|--------------------------------|------------------|------|------------------|---------|------------------|-------------------|----|
|                                | 1994             | 1995 | 1994             | 1995    | Tax expenditures | Transfer payments |    |
| General administration         | 35               | 35   | } 2700           | 7300    | -85              | 170               |    |
| Public order                   | -                | -    |                  | } 18800 | 19000            | 0                 | 1  |
| Defence                        | 200              | -    |                  |         | } 52900          | 48300             | 11 |
| Education, science and culture | 400              | 400  | 4000             | 4000    |                  | -26               | 0  |
| Social security                | 5300             | 5900 | 6300             | 9300    | -                | 48                |    |
| Health care                    | 400              | 400  | 10100            | 14100   | -55              | 40                |    |
| Housing and environment        | 3800             | 2800 | 3200             | 1700    | -35              | -47               |    |
| Labour force                   | -                | -    | 4500             | 5900    | 0                | 31                |    |
| Agriculture and forestry       | 4400             | 2000 | 6700             | 6800    | -9               | 1                 |    |
| Transport and communication    | 2300             | 1500 | -                | -       | -                | -                 |    |
| Industry and business          | 3400             | 3400 | -                | -       | -                | -                 |    |
| Other expenditures             | 1100             | 1000 | -                | -       | -                | -                 |    |
| Miscellaneous items            | -4100            | 1900 | -                | -       | -                | -                 |    |

\* Figures generally rounded to nearest 100 million. Tax penalties subtracted from tax expenditures.  
A negative figure indicates that penalties exceed expenditures.  
\*\* Figure includes bank support.

Table 4. Economically significant tax expenditures by spending and tax category 1992-1995, FIM million \*

|                                | 1992  | 1993  | 1994  | 1995  |
|--------------------------------|-------|-------|-------|-------|
| General administration         | 70    | 70    | 70    | 70    |
| Public order                   | -     | -     | -     | -     |
| Defence                        | 500   | 600   | 200   | -     |
| Education, science and culture | 1100  | 800   | 800   | 800   |
| Social security                | 13200 | 16400 | 16400 | 17300 |
| Health care                    | 800   | 900   | 400   | 400   |
| Housing and environment        | 17100 | 12500 | 11100 | 10100 |
| Labour force                   | -     | -     | -     | -     |
| Agriculture and forestry       | 5700  | 5700  | 5100  | 2700  |
| Transport and communication    | 4100  | 4100  | 2400  | 1600  |
| Industry and business          | 1800  | 3600  | 5400  | 5300  |
| Other expenditures             | 1200  | 1100  | 1100  | 1000  |
| Miscellaneous items            | 3000  | 700   | -1200 | 4400  |

\* Figures generally rounded to nearest 100 million.  
Tax penalties subtracted from tax expenditures.



Table 5. Itemized breakdown of economically significant tax expenditures by spending and tax category 1992 - 1997

Explanation: \* = preliminary calculation, \*\* = forecast, - = nothing to report, .. = not estimable

| Spending category<br>Item   | Tax expenditures, est. FIM million |      |      |      |       |        | Notes  |
|---|------------------------------------|------|------|------|-------|--------|--|
|   | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |  |
| <b>1. General administration</b>  |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>  |                                    |      |      |      |       |        |  |
| 1. Tax exemption of certain benefits received by foreign service and other employees                | 70                                 | 70   | 70   | 70   | 80    | ..     | Order of magnitude.  |
| 2. Tax exemption of foreign-stationed specialists' salaries from UN organizations                   | ..                                 | ..   | ..   | ..   | ..    | ..     | Can not be estimated.  |
| <b>2. Defence</b>   |                                    |      |      |      |       |        |  |
| <i>Indirect taxation</i>  |                                    |      |      |      |       |        |  |
| 1. Exemption from turnover of certain foreign acquisitions for national defence                     | 510                                | 570  | 230  | -    | -     | -      | Exemption from turnover tax based on exemption from customs duties. Eliminated 1994. |
| <b>3. Education, science and culture</b>  |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>  |                                    |      |      |      |       |        |  |
| 1. Tax exemption of non-profit organizations (excluding Evangelical Lutheran and Orthodox churches) | 700                                | 500  | 500  | 500  | 550   | ..     | Order of magnitude. The tax rate was changed since 1993.                             |

| Spending category<br>Item                              | Tax expenditures, est. FIM million |      |      |      |       |        | Notes  |
|--|------------------------------------|------|------|------|-------|--------|--|
|  | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |  |
| 2. Tax exemption of scholarships, etc.                 | 360                                | 200  | 160  | 100  | 90    | 80     | Support in the form of tax exemptions for student aid and university scholarships. The student aid for university students became liable to taxation on July 1, 1992 and student aid for intermediate level students since July 1, 1994. |
| 3. Student grant deduction in municipal taxation       | -                                  | 80   | 140  | 200  | 190   | 180    |  |
| <b>4. Social security</b>                              |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>             |                                    |      |      |      |       |        |  |
| 1. Tax exemption of national pension supplements, etc. | 660                                | 660  | 680  | 660  | 630   | 570    |  |
| 2. Tax exemption of war injury compensation            | 480                                | 460  | 450  | 440  | 410   | 400    |  |
| 3. Tax exemption of social assistance payments         | 580                                | 700  | 800  | 850  | 900   | 950    |  |
| 4. Tax exemption of maintenance support                | 480                                | 490  | 590  | 580  | 580   | 570    |  |
| 5. Tax exemption of child benefits                     | 2300                               | 2200 | 3850 | 3550 | 3300  | 3100   | The amount of child benefits was raised in 1994 in conjunction with the elimination of family deductions.  |
| 6. Tax exemption of front-veterans' pension            | -                                  | -    | -    | -    | -     | -      |  |
| 7. Tax exemption of redundancy payments                | 290                                | 250  | 160  | 90   | 90    | 90     |  |

| Spending category  | Tax expenditures, est. FIM million |      |      |      |      |       | Notes  |
|--|------------------------------------|------|------|------|------|-------|--|
|  | Item                               | 1992 | 1993 | 1994 | 1995 | 1996* |  |
| 8. Child care deduction in central government taxation   | 820                                | 400  | -    | -    | -    | -     | - Eliminated 1994.   |
| 9. Pension income deduction in central government taxation   | 70                                 | 110  | 70   | 70   | 50   | 20    |  |
| 10. Child deduction in municipal taxation  | 3000                               | 2800 | -    | -    | -    | -     | - Eliminated 1994.   |
| 11. Single-parent deduction in municipal taxation  | 310                                | 300  | -    | -    | -    | -     | - Eliminated 1994.   |
| 12. Disability deduction in municipal taxation   | 190                                | 180  | 200  | 180  | 170  | 160   |  |
| 13. Pension income deduction in municipal taxation   | 3650                               | 4300 | 4300 | 4400 | 4400 | 4400  | Collection of the national pension contribution from pensioners increases the magnitude of tax expenditure since 1992. |
| 14. Disability deduction in central government taxation  | 220                                | 250  | 260  | 270  | 280  | 270   |  |
| 15. Maintenance obligation deduction in central government taxation                                  | 30                                 | 20   | 20   | 30   | 30   | 30    |  |
| 16. Deduction of employees' statutory pension contributions  | -                                  | 2950 | 3000 | 4100 | 4700 | 4900  |  |
| 17. Deduction of employees' unemployment insurance contributions and unemployment fund contributions | 90                                 | 300  | 2000 | 2050 | 1750 | 1750  |  |

| Spending category  | Tax expenditures, est. FIM million |      |      |      |       |        | Notes  |
|--|------------------------------------|------|------|------|-------|--------|--|
| Item   | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |  |
| <i>Indirect taxation</i>   |                                    |      |      |      |       |        |  |
| 1. Refund of motor-vehicle tax to disabled persons                                       | 40                                 | 30   | 30   | 30   | 40    | ..     |  |
| <b>5. Health care</b>  |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>   |                                    |      |      |      |       |        |  |
| 1. Medical expense deduction   | -                                  | -    | -    | -    | -     | -      | - Eliminated 1992.   |
| <i>Indirect taxation</i>   |                                    |      |      |      |       |        |  |
| 1. Reduced VAT rate for medicines (12 %)   | 820                                | 890  | 400  | 360  | 410   | ..     | Order of magnitude. Before 1995 tax expenditure resulted from tax exemption of medicines.  |
| <b>6. Housing and environment</b>  |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>   |                                    |      |      |      |       |        |  |
| 1. Tax exemption of capital gains on owner-occupied dwellings                            | 5000                               | 2600 | 2500 | 2500 | 3000  | 3000   | Order of magnitude. Calculation based on nominal sales proceeds of dwellings and acquisition cost deemed to be 50 per cent of sales proceeds. Since 1993 the capital income tax rate of 25 % has been applied. |
| 2. Tax exemption of housing support  | 900                                | 950  | 1200 | 1300 | 1150  | 1100   |  |
| 3. Deduction for interest expense and for index and exchange rate losses (housing loans) | 4200                               | 4100 | 3500 | 3200 | 2400  | 2100   | Includes additional interest deduction since 1993.   |

| Spending category   | Tax expenditures, est. FIM million |      |      |      |       |        | Notes   |
|---|------------------------------------|------|------|------|-------|--------|---|
| Item  | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |   |
| 4. Partial tax exemption of imputed rent for owner-occupied dwellings | 4200                               | 2600 | 3000 | 3100 | 4200  | 4500   | Order of magnitude. Calculation based on State Housing Board dwelling valuations and assumed 3 % return. The taxation of imputed rent was eliminated in 1993 in conjunction with the adoption of the real estate tax. Since 1993 when calculating the tax expenditure, imputed rent has been treated as capital income. The real estate tax has not been deducted from the tax expenditure. |
| <i>Indirect taxation</i>  |                                    |      |      |      |       |        |   |
| 1. Tax exemption of tap water   | 260                                | 290  | 120  | -    | -     | -      | Eliminated 1994.  |
| 2. Tax exemption of housing construction                              | 2500                               | 2000 | 800  | -    | -     | -      | Order of magnitude. Eliminated 1994.  |
| <b>7. Agriculture and forestry</b>                                    |                                    |      |      |      |       |        |   |
| <i>Income, wealth and related taxation</i>                            |                                    |      |      |      |       |        |   |
| 1. Tax exemption of sales revenue from wild berries, mushrooms, etc.  | 20                                 | 10   | 20   | 20   | 20    | ..     | Order of magnitude.   |
| 2. Agricultural adjustment deduction 1995 - 1999                      | -                                  | -    | -    | 150  | 150   | 150    | Applies to 1995 - 1999.   |
| <i>Farm income taxation</i>   |                                    |      |      |      |       |        |   |
| 1. Tax exemption of own-use farm products                             | 250                                | 250  | 250  | 250  | ..    | ..     | Order of magnitude.   |

| Spending category<br>Item   | Tax expenditures, est. FIM million |      |      |      |       |        | Notes   |
|---|------------------------------------|------|------|------|-------|--------|---|
|   | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |   |
| 2. Depreciation on machinery and equipment                            | 100                                | -    | -    | 10   | ..    | ..     |   |
| 3. Depreciation on building acquisition expenses                      | 30                                 | 50   | 60   | 40   | ..    | ..     | Order of magnitude.   |
| 4. Tax exemption of values of logging                                 | 240                                | 240  | 240  | 240  | ..    | ..     | Order of magnitude.   |
| 5. Forestry fee deduction   | 50                                 | 50   | 50   | 50   | ..    | ..     | Order of magnitude.   |
| 6. Tax exemption of damaged forest area                               | 40                                 | 40   | 40   | 40   | ..    | ..     | Order of magnitude.   |
| 7. Tax expenditure due to valuation of forestry on a net income basis | 1000                               | 600  | 600  | 500  | ..    | ..     | Order of magnitude.   |
| 8. Tax exemption of forestry subsidies                                | 80                                 | 80   | 80   | 80   | ..    | ..     | Order of magnitude.   |
| 9. Equalization reserve   | ..                                 | ..   | ..   | ..   | ..    | ..     | Deductible since 1991.  |
| 1.-9. Total tax expenditure   | 1790                               | 1310 | 1320 | 1210 | ..    | ..     |   |
| <i>Indirect taxation</i>  |                                    |      |      |      |       |        |   |
| 1. Turnover tax deductions for primary products                       |                                    |      |      |      |       |        |   |
| - domestic consumption  | 4140                               | 4380 | 4200 | -    | -     | -      | Gross reduction in food-stuff prices due to primary product deduction. Eliminated 1995.       |
| - exports   | 750                                | 710  | 710  | -    | -     | -      | Export subsidies for agricultural products paid through turnover tax system. Eliminated 1995. |

| Spending category<br>Item  | Tax expenditures, est. FIM million |       |       |      |       |        | Notes  |
|--|------------------------------------|-------|-------|------|-------|--------|--|
|  | 1992                               | 1993  | 1994  | 1995 | 1996* | 1997** |  |
| 2. Hidden turnover tax (tax penalty) on agricultural production inputs |                                    |       |       |      |       |        |  |
| - investments  | -560                               | -250  | -440  | -    | -     | -      | - Non-deductible turnover  |
| - other production inputs  | -690                               | -720  | -900  | -    | -     | -      | - taxes on machinery, equipment and building investment, and other production inputs. Eliminated 1995. |
| 3. Turnover tax exemption of compensation for price reduction          | 100                                | 140   | 80    | -    | -     | -      | - Reduces compensation for price reduction in Budget by amount of tax expenditure. Eliminated 1994.    |
| 4. Reduced VAT rate for foodstuffs (17 %)                              | -                                  | -     | -     | 1350 | 1530  | ..     | .. Deductible since 1995. Order of magnitude.  |
| Total turnover tax expenditure for foodstuffs (items 1 - 4)            | 3740                               | 4260  | 3650  | 1350 | 1530  | ..     | .. Hidden taxes netted out. Eliminated 1995.   |
| 5. Turnover tax exemption of cattle feed                               |                                    |       |       |      |       |        |  |
| - agriculture  | (590)                              | (570) | (600) | -    | -     | -      | - Part due to tax exemption  |
| - other  | 100                                | 90    | 90    | -    | -     | -      | - of cattle feed for agriculture in item 1. Eliminated 1995.   |
| 6. Turnover tax exemption of fertilizers                               |                                    |       |       |      |       |        |  |
| - agriculture  | (360)                              | (400) | (370) | -    | -     | -      | - Figures for agriculture  |
| - other  | 30                                 | 30    | 30    | -    | -     | -      | - included in item 1. Eliminated 1995.   |
| <b>8. Transport and communication</b>                                  |                                    |       |       |      |       |        |  |
| <i>Income, wealth and related taxation</i>                             |                                    |       |       |      |       |        |  |
| 1. Deduction for seamen's wages  | 130                                | 150   | 180   | 170  | 170   | 180    |  |

| Spending category<br>Item   | Tax expenditures, est. FIM million |      |      |      |       |        | Notes  |
|---|------------------------------------|------|------|------|-------|--------|--|
|   | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |  |
| <i>Indirect taxation</i>  |                                    |      |      |      |       |        |  |
| 1. Reduced VAT rate for conveyance of passengers (6 %)  | 2100                               | 2200 | 1000 | 560  | 630   | ..     | Order of magnitude. Before 1995 tax expenditure resulted from tax exemption of conveyance of passengers.   |
| 2. Reduced VAT rate for TV licences (6 %)   | -                                  | -    | -    | 190  | 210   | ..     | Applies in respect of the compensation received from the State Radio Fund of Oy Yleisradio Ab.             |
| 3. Zero VAT rate for subscribed newspapers and other periodicals                              | 620                                | 610  | 650  | 570  | 650   | ..     | Order of magnitude. Before 1995 tax expenditure resulted from tax exemption of newspapers and periodicals. |
| 4. Tax exemption of land and water construction   | 1100                               | 1000 | 400  | -    | -     | -      | Order of magnitude. Includes some work not related to transport and communication. Eliminated 1994.        |
| 5. Taxi owners' motor vehicle tax relief  | 120                                | 120  | 120  | 130  | 140   | ..     | Includes also estimated turnover tax relief.   |
| <b>9. Industry and business</b>   |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>  |                                    |      |      |      |       |        |  |
| 1. Tax exemption of Regional Development Fund, TEKERA, Finnish Export Credit Ltd and EKOKEM   | 50                                 | 40   | 40   | 40   | 40    | ..     |  |
| 2. Tax exemption of interest income from bonds, etc. for taxpayers with limited tax liability | 1200                               | 1400 | 1500 | 1300 | 1200  | 1400   | Order of magnitude.  |



| Spending category   | Tax expenditures, est. FIM million |       |      |      |       |        | Notes   |
|---|------------------------------------|-------|------|------|-------|--------|---|
| Item  | 1992                               | 1993  | 1994 | 1995 | 1996* | 1997** |   |
| 3. Tax exemption of income earned abroad                      | 140                                | 150   | 150  | 150  | 150   | ..     |   |
| 4. Partner deduction  | -                                  | 140   | 150  | 110  | 80    | 40     |   |
| <i>Taxation of business income</i>                            |                                    |       |      |      |       |        |   |
| 1. Extraordinary investment deduction for development regions | 0                                  | 10    | 10   | 5    | ..    | ..     | .. Deduction applies to investments made in 1989 at the latest.   |
| 2. Ice fee classification deduction                           | 40                                 | 40    | 40   | 20   | ..    | ..     | .. Order of magnitude.  |
| 3. Undervaluation of inventories                              | -1100                              | 20    | -    | -    | -     | -      | - Order of magnitude. Eliminated 1993. Transitional regulations apply to security-related and obligatory inventories in 1993.   |
| 4. Operating reserve  | -300                               | 200   | 10   | 40   | ..    | ..     | .. Order of magnitude. Eliminated in 1993 except for self-employed persons and partnerships. 10 % reserve for corporations up to 1993.  |
| 5. Releasing of inventory and operating reserves              | -                                  | -1300 | -    | -    | -     | -      | - Order of magnitude. Part of inventory and operating reserves could be used to form transitional reserves allowing for indirect crediting to income like the investment reserve. |
| 6. Investment reserve   | -270                               | -210  | -260 | -220 | ..    | ..     | .. Reserve entitlement removed in 1992. Restriction of depreciation entitlements reduces tax expenditure of previous years. Calculated on basis of true economic depreciation.    |

| Spending category<br>Item   | Tax expenditures, est. FIM million |      |      |      |       |        | Notes   |
|---|------------------------------------|------|------|------|-------|--------|---|
|   | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |   |
| 7. Vessel purchase reserve  | 10                                 | 20   | -    | -    | -     | -      | Eliminated 1994.  |
| 8. Deduction for unrealized index and exchange rate losses  | ..                                 | ..   | ..   | ..   | ..    | ..     | Can not be estimated.   |
| 9. Machinery and equipment depreciation   | -1000                              | 2000 | 2400 | 2800 | ..    | ..     | Order of magnitude.   |
| 10. Depreciation of building acquisition costs  | 200                                | ..   | ..   | ..   | ..    | ..     | Order of magnitude.   |
| 11. Depreciation of buildings, equipment, machinery, etc. acquired for civil defence and environmental protection | ..                                 | ..   | ..   | ..   | ..    | ..     |   |
| 12. Temporarily accelerated depreciation of productive investments  | -                                  | 360  | 350  | 40   | -     | -      |   |
| 13. Unrestricted development area depreciation  | 100                                | 200  | 300  | 820  | ..    | ..     | Order of magnitude.   |
| 14. Tax exemption of capital gains on fixed assets  | 1300                               | -    | -    | -    | -     | -      | Tax exemption of capital gains eliminated in 1993.                                    |
| 15. Interim subsidy of industrial investments   | -                                  | -    | 7    | 5    | -     | -      |   |
| 1.-15. Total tax expenditure  | -1020                              | 1340 | 2857 | 3510 | ..    | ..     |   |
| <i>Indirect taxation</i>  |                                    |      |      |      |       |        |   |
| 1. Turnover tax exemption for services (accommodations, beauty and health care, recreation, culture, etc.)        | 3600                               | 3500 | 1600 | -    | -     | -      | Order of magnitude. Eliminated 1994.  |
| 2. Turnover tax exemption of workplace canteens   | 220                                | 210  | 200  | -    | -     | -      | Canteen and restaurant activities generally subject to turnover tax. Eliminated 1995. |

| Spending category   | Tax expenditures, est. FIM million |       |       |      |       |        | Notes  |
|---|------------------------------------|-------|-------|------|-------|--------|--|
| Item  | 1992                               | 1993  | 1994  | 1995 | 1996* | 1997** |  |
| 3. Reduced VAT rate for film performances (12 %)                        | -                                  | -     | -     | 30   | 30    |        | .. Deductible since 1995. Order of magnitude.  |
| 4. Reduced VAT rate for physical training services (12 %)               | -                                  | -     | -     | ..   | ..    |        | .. Can not be estimated.   |
| 5. Reduced VAT rate for books (12 %)                                    | -                                  | -     | -     | 10   | 10    |        | .. Deductible since 1995. Order of magnitude.  |
| 6. Reduced VAT rate for accomodation services (6 %)                     | -                                  | -     | -     | 160  | 190   |        | .. Deductible since 1995. Order of magnitude.  |
| 7. Turnover tax exemption of domestic fuels and certain waste materials | 280                                | 300   | 350   | -    | -     |        | - Eliminated 1995.   |
| 8. Turnover tax exemption of natural gas imports                        | 220                                | 250   | 280   | -    | -     |        | - Eliminated 1995.   |
| 9. Hidden turnover tax (penalty) on exports                             | -2900                              | -3700 | -1700 | -    | -     |        | - Order of magnitude. Eliminated 1994.   |
| <b>10. Other expenditures</b>   |                                    |       |       |      |       |        |  |
| <i>Income, wealth and related taxation</i>                              |                                    |       |       |      |       |        |  |
| 1. Tax exemption of bonds and interest thereon                          | 200                                | 200   | 200   | 150  | 100   | 50     | Tax exemption of interest income. Since 1991 calculated using the final withholding tax rate on interest income. |
| 2. Tax exemption of deposits and interest thereon                       | 1000                               | 900   | 900   | 900  | 700   | 600    | Tax exemption of interest income. Since 1991 calculated using the final withholding tax rate on interest income. |

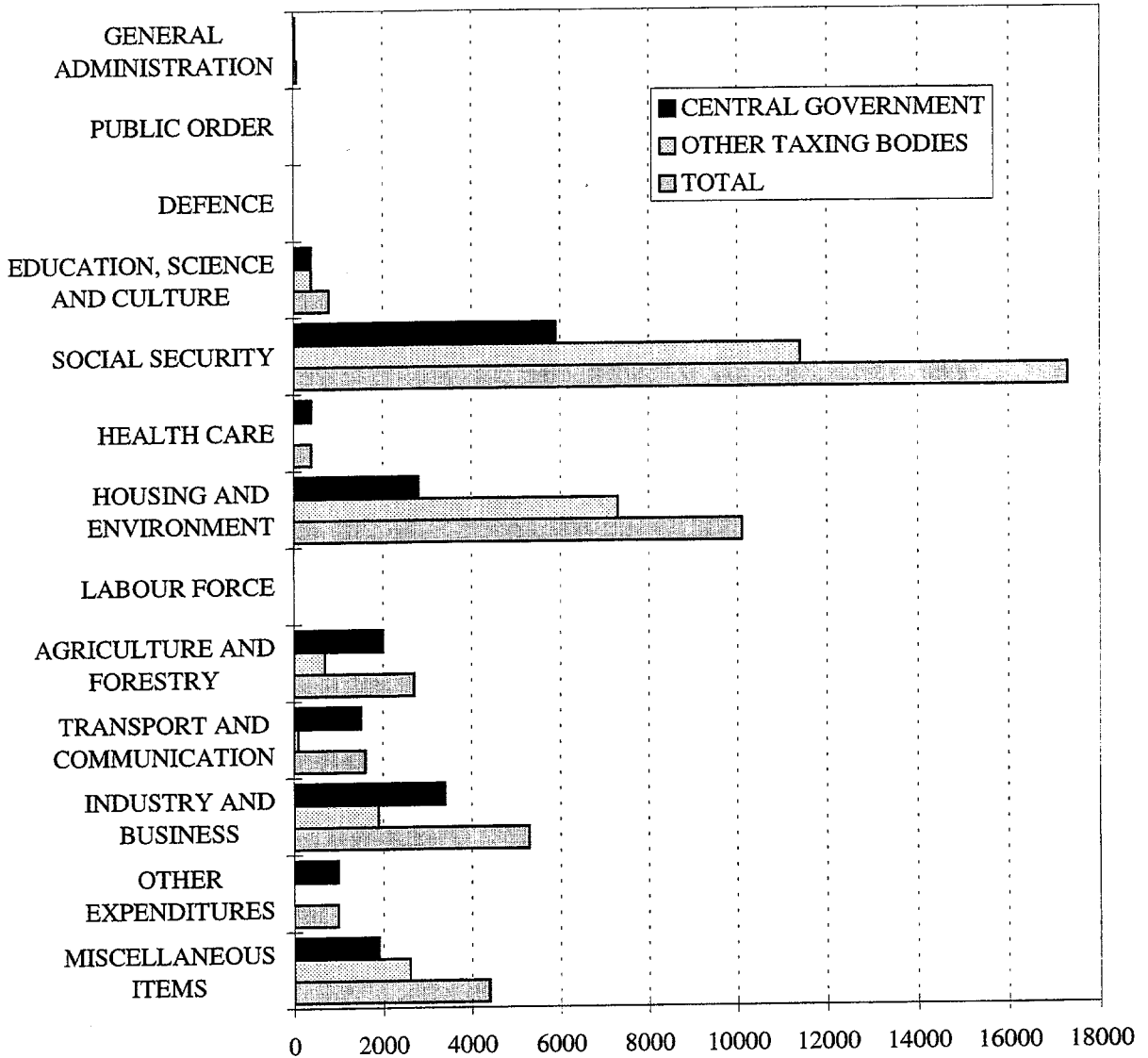
| Spending category  | Tax expenditures, est. FIM million |      |      |      |       |        | Notes  |
|--|------------------------------------|------|------|------|-------|--------|--|
| Item   | 1992                               | 1993 | 1994 | 1995 | 1996* | 1997** |  |
| <b>11. Miscellaneous items</b>   |                                    |      |      |      |       |        |  |
| <i>Income, wealth and related taxation</i>   |                                    |      |      |      |       |        |  |
| 1. Partial income tax exemption of incidental capital gains on sales and property transfers            | 1600                               | -    | -    | -    | -     | -      | - Order of magnitude. Calculation based on nominal sales proceeds of property and acquisition cost deemed to be 50 per cent of the sales proceeds. Covers household-owned farms (excl. generation shifts), real estate and shares. |
| 2. Tax exemption of personnel benefits   | 1000                               | 1000 | 1000 | 1000 | 1100  | 1200   | Order of magnitude.  |
| 3. Deduction of labour organization membership fees  | 870                                | 1050 | 1050 | 1150 | 1200  | 1200   |  |
| 4. Deduction for interest payments, and index and foreign exchange losses (other than housing loans)   | 800                                | 650  | 400  | -    | -     | -      |  |
| 5. Capital income deduction  | 320                                | -    | -    | -    | -     | -      | - Eliminated 1993.   |
| 6. Temporary earned income deduction for individuals with a small income in municipal taxation 1991-96 | 320                                | 360  | 560  | 500  | 480   | 1600   | The rules of deduction changed 1994.   |
| 7. Partial tax exemption of emoluments in kind   | 1000                               | 1000 | 900  | 800  | 700   | 600    |  |
| 8. Tax exemption of travel cost reimbursements in certain sectors                                      | 60                                 | 60   | 60   | 60   | 50    | 50     |  |
| 9. Partial tax exemption of travel allowances  | 330                                | 250  | 220  | 180  | 150   | 120    |  |

| Spending category  | Tax expenditures, est. FIM million |       |       |      |       |        | Notes  |
|--|------------------------------------|-------|-------|------|-------|--------|--|
| Item   | 1992                               | 1993  | 1994  | 1995 | 1996* | 1997** |  |
| <i>Indirect taxation</i>   |                                    |       |       |      |       |        |  |
| 1. Turnover tax exemption of certain buildings   | 600                                | 400   | 200   | -    | -     | -      | - Order of magnitude. Covers public and other activity not subject to turnover tax, such as bank and insurance offices. Eliminated 1994. |
| 2. Lower average VAT rate for intermediate product inputs in public sector (21 %)                                    | -                                  | -     | -     | 410  | 310   | -      | .. Deductible since 1995. Order of magnitude.  |
| 3. Lower average VAT rate for intermediate product inputs in private sector (21.5 %)                                 | -                                  | -     | -     | 100  | 70    | -      | .. Deductible since 1995. Order of magnitude.  |
| 4. Turnover tax exemption of sales and import of trotting horses and pets  | 50                                 | 30    | 10    | -    | -     | -      | - Order of magnitude. Eliminated 1994.   |
| 5. Non-deductibility of turnover tax included in prices of transport and services (penalty)                          | -2600                              | -2800 | -3700 | -    | -     | -      | - Order of magnitude. Eliminated 1994.   |
| 6. Non-deductibility of purchase price of telecommunications services (penalty)                                      | -800                               | -800  | -900  | -    | -     | -      | - Order of magnitude. Eliminated 1994.   |
| 7. Limitation in deductibility of turnover tax inherent in investments, excluding agricultural investments (penalty) | -2800                              | -2600 | -1800 | -    | -     | -      | - Order of magnitude. Only production-related investments and energy investments are deductible. Eliminated 1994.                        |
| 8. Other types of non-deductibility of turnover tax (penalty)  | -1000                              | -1900 | -1200 | -    | -     | -      | - Order of magnitude. Eliminated 1994.   |
| Total hidden turnover tax (items 5-8)  | -7200                              | -8100 | -7600 | -    | -     | -      | -  |

| Spending category  | Tax expenditures, est. FIM million |         |         |      |       |        | Notes  |
|--|------------------------------------|---------|---------|------|-------|--------|--|
| Item   | 1992                               | 1993    | 1994    | 1995 | 1996* | 1997** |  |
| of which   |                                    |         |         |      |       |        |  |
| - share related to domestic consumption  | -4300                              | -4400   | -5900   | -    | -     | -      |  |
| - share related to exports   | (-2900)                            | (-3700) | (-1700) | -    | -     | -      | - Included in industry and other business tax expenditures.  |
| 9. Tax exemption on motor vehicles imported as personal effects when moving into Finland | 310                                | 270     | 250     | 250  | 350   |        | .. Order of magnitude. Includes loss of tax revenue due to exemption of motor vehicles and motorcycles and loss of turnover tax revenue. |



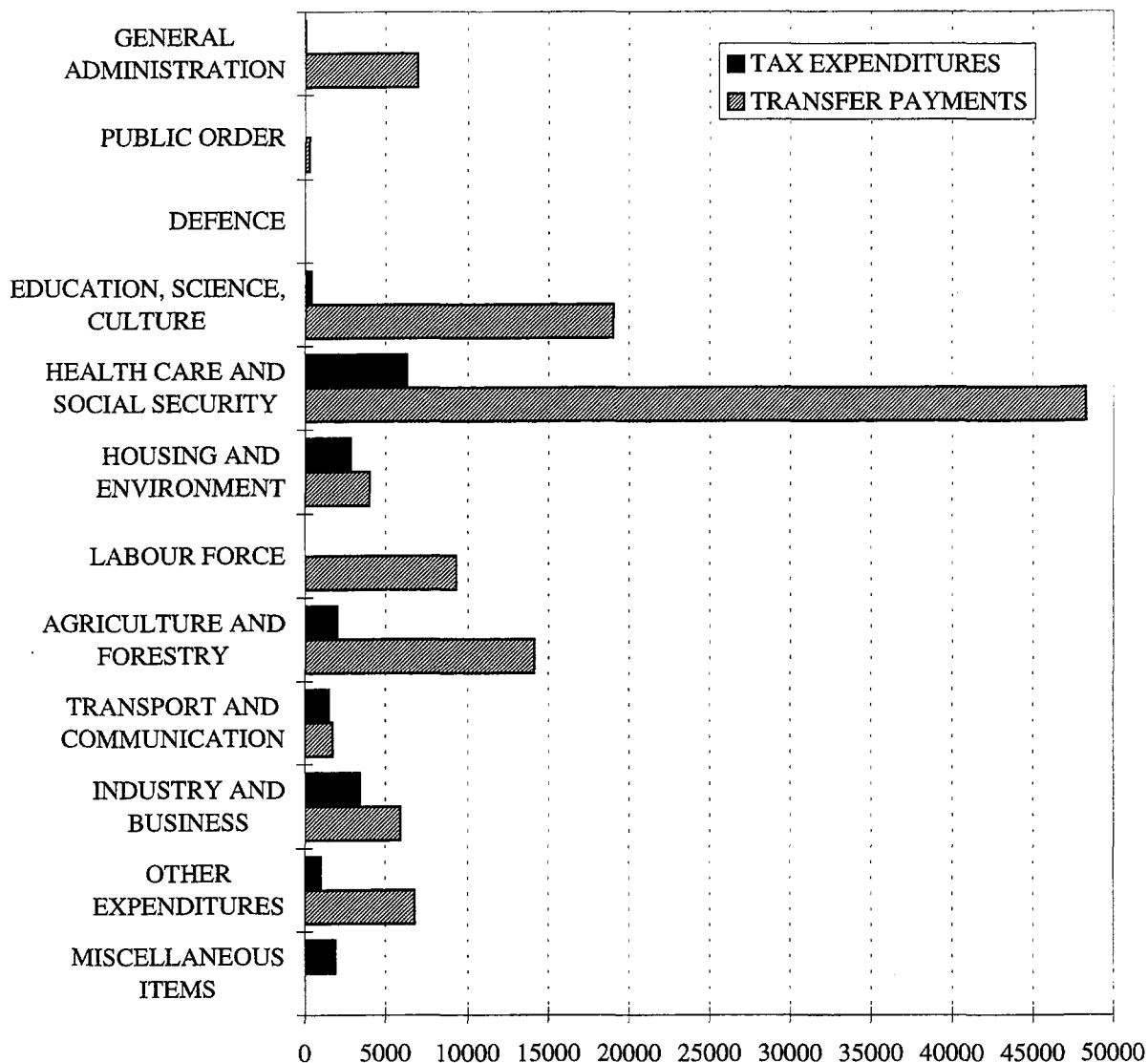
## TAX EXPENDITURES BY SPENDING CATEGORY AND TAXING BODY IN 1995, FIM MILL.



IN THE CALCULATION, TAX PENALTIES HAVE BEEN DEDUCTED FROM TAX EXPENDITURES.



**CENTRAL GOVERNMENT TAX EXPENDITURES AND  
TRANSFER PAYMENTS BY SPENDING CATEGORY  
IN 1995, FIM MILL.**



IN THE CALCULATION, TAX PENALTIES HAVE BEEN DEDUCTED FROM TAX EXPENDITURES.

