

EQUITY AND THE DUAL INCOME TAX SYSTEM IN FINLAND

Rufus Nordman (LL.M.), Doctoral Researcher in Tax Law at Åbo Akademi University (Finland)



BACKGROUND

BASIC STRUCTURE OF FINNISH DUAL INCOME TAX SYSTEM (DIT)

Earned income is taxed *progressively*, while capital income is taxed at a (virtually) *flat rate* that is significantly lower than the top rate for earned income

PERCEIVED EQUITY ISSUES

Horizontal: *same* amounts of income can be subject to *different* amounts of tax

Vertical: *inconsistent* application of progressive taxation

MAIN JUSTIFICATION GROUNDS

International competitiveness, accounting for inflation in a simple way, and neutrality between investment objects

PURPOSE AND RESEARCH QUESTIONS

PURPOSE OF RESEARCH

Challenge the *assumption of incompatibility* between equity and the objectives of the Finnish DIT → instead examine to what extent they could be *reconciled*

RESEARCH QUESTIONS

1. What type of equity issues occur in the Finnish DIT?
2. What is the purpose of the Finnish DIT, and how well does the current system fulfill this purpose?
3. To what extent can the equity issues in the Finnish DIT be addressed without hindering the fulfillment of the system's purpose?



RECONSTRUCTING EQUITY

DEFINING EQUITY THROUGH RECONSTRUCTION

Using equity as a standard of criticism requires *defining* the concept of equity → in the research, the definition of equity is sought from *within* the Finnish income tax system by *reconstructing* the meaning equity has been attributed in Finnish income taxation

CONNECTION TO THE ABILITY-TO-PAY PRINCIPLE

The ability-to-pay (ATP) principle has been considered the leading principle of equity in Finnish income taxation → examining its content is an integral part of reconstructing the meaning of equity in Finnish income taxation

KEY QUESTIONS AROUND THE ATP PRINCIPLE

RELEVANT CRITERIA FOR DETERMINING ATP?

What has been considered the *relevant measure* of a taxpayer's ATP in Finnish income taxation? Only (nominal) net income? Or should factors such as inflation, economic double taxation, and/or the personal circumstances of the taxpayer be taken into account? And if so, to what extent?

RELATION TO PROGRESSIVE TAXATION?

Does the ATP principle in itself *demand progressive taxation*, or is a proportional tax sufficient for fulfilling the ATP principle's requirement of vertical equity? Is progressive taxation rather related to the redistributive goals of taxation?

