

The tax-based funding of the Finnish public service broadcaster Yle¹

As of 1 January 2013 a public broadcasting tax, the Yle tax, replaced the television (licence) fee as the source of funding for the Finnish public service broadcaster, Yle. This article describes the new funding model and how it has worked during its 3 ½ years so far. It is an innovative tax model built on and designed to suit the specific circumstances in Finland, with the aim of safeguarding Yle's independence and the long-term development of its content services.

Background: a reform was necessary

Yle used to be funded through a television fee paid by households and companies possessing a television receiver. Until 2007, part of its income came from an operating licence fee paid by the commercial TV companies. Yle is not allowed to carry any advertising or sponsorship.

After the switchover to digital terrestrial television in 2007, the number of television fee payers dropped significantly. Unlike the commercial TV companies, Yle had chosen the DVB-subtitling system in order to make it possible for viewers to choose the subtitling language: Finnish, Swedish, subtitles for the hearing-impaired or audio subtitling for the visually impaired (synthetic sound based on translated subtitles). Since there had been no mandatory certification process for the set-top-boxes some of the boxes on the market could not cope with the DVB-subtitling. People protested by cancelling their television fees.

Fixing the problem did not bring the 85 000 lost fee payers back, instead the number of payers continued to decrease. In 2010 the accumulated drop was more than 100 000 television fee payers (5%). The licence fee system could thus not generate enough funds anymore. It became clear that a new model was needed for financing Yle.

The process of finding a replacement for the licence fee model, which until then clearly had been the preferred model, was long and difficult. It was done out of necessity, but the risks involved in the process reminded us of the wisdom in the saying "if it is not broken, don't fix it". When the solution was presented it seemed innovative and was well received, although it was a tax-based model. A crucial element was that in this model, the financing was built to be independent from Government decisions. In fact, this issue has been pivotal in practice.

The new system: a tax outside the state budget with the level of funding guaranteed by law

The Yle tax came into force on 1 January 2013. It is a tax outside the state budget negotiations with legal safeguards to guarantee Yle's independence and level of funding including annual increases to compensate for cost level increases. The annual adjustments are to correspond to changes in the cost-of living index (1/3) and the wage and salary earnings index (2/3). The Yle tax is collected by the tax authorities, the assets by-pass the state finance system technically, and the amount to be transferred to the extra-budgetary State Television and Radio Fund is defined by law. The same amount is transferred onwards to Yle, of which Yle pays the value added tax (10%). (1)

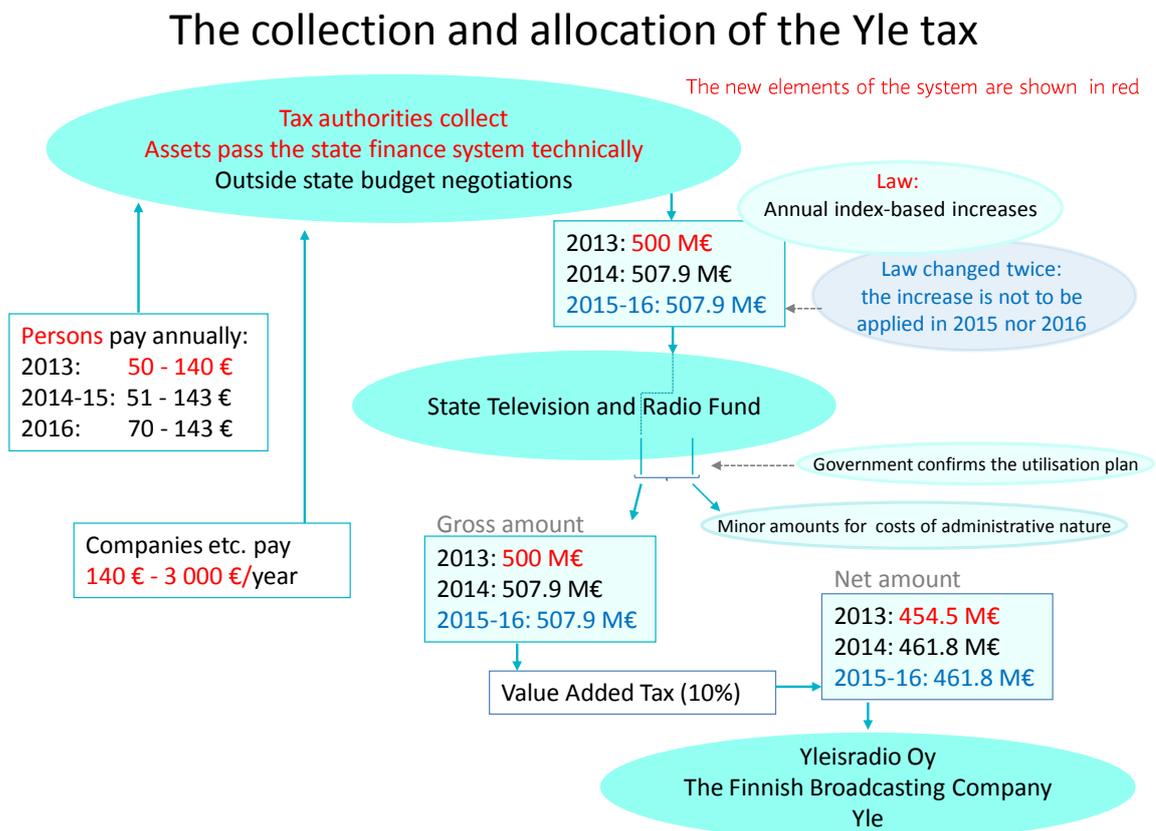
Instead of all households paying the same television fee (252.25 € in 2012), the Yle tax means that persons pay 0.68% of their earned and capital income. People under 18 and people with low income (income less than about 10,300 € in 2016) are exempted. As of 2016, the lowest annual tax amount collected is 70 € (originally 50 €). The tax cannot be higher than 143 € (originally 140 €). (2)

¹ Article published in Norwegian in Vox Publica, 16 June 2016:
<http://voxpublica.no/2016/06/skatt-istedenfor-tv-lisens-erfaringer-fra-finland/>

Companies with a taxable income over 0.05 M€ pay 140 € plus 0.35% of their taxable income that exceeds 0.05 M€, up to a maximum of 3 000 €. (2)

The amount transferred to Yle from the State Television and Radio Fund was 500 M€ in 2013. After paying the VAT the net amount received by Yle was 454.5 M€. In 2016, the net amount is 461.8 M€.

The system is described in the following chart:



While the licence fee as the source of public service funding is a very common model, the way the model is arranged is quite country-specific. In the new Yle tax model, many of the previous Finnish characteristics of the television fee model were preserved, and basically the new features were the source of funding, the collection of assets and the special legal guarantees, which in this new “order” were considered necessary to guarantee the protection of Yle’s editorial independence. The independence was also to be guaranteed by the “deal” between the political parties, according to which any major future changes relating to Yle’s funding should be based on the joint initiative of all the political parties represented in Parliament, not on initiatives by the Government of the day.

Prior to the decision to abolish the television fee, the Yle tax model was presented to EU officials, and it was concluded that the proposed new Yle tax represented so called existing state aid and that there was no need to notify it.

The first few years: the annual increases have temporarily been cancelled twice

In accordance with the statements in the law about annual cost adjustment, the amount to be transferred to Yle in 2014 was index-adjusted with an increase of 1.6%. But in March 2014 the chairpersons of all the political groups in Parliament decided, that in 2015, as an exception, there

would not be an index-related increase. The law was changed temporarily by adding a statement saying that what is stated about the annual increases will not be applied in 2015.

An important aspect here is that this was not done on the initiative of the Government. The Government only implemented the cancellation of the increase. Although this raised questions about the sustainability of the model, there were no indications of any other reasons behind the decision other than the economic crisis in the country, and the politicians adapting to political reality. For Yle, it meant that savings had to be made, cuts in the number of personnel were needed and a number of employees were dismissed.

In May 2015 the new Juha Sipilä Government took office and agreed that a Parliamentary working group was to be appointed to examine Yle's duties and funding. The group was appointed on 30 October 2015. After its mandate was prolonged, the group is expected to report by 30 June 2016.

But already in early autumn 2015, changes relating to the Yle tax were proposed by the new Government. Four opposition parties filed a protest against the actions of the Government and against its bill for the temporary cancellation of the annual increase of the public service funding allowance for 2016. The bill was approved but the final outcome of two other Government-initiated changes (moving the Yle tax assets formally into the state finance frame and the plan to skip the increase also in 2017-2019) remains to be seen.

Analyzing the outcome

When comparing the licence fee model and the Finnish Yle tax model, it is worth noting that the licence fee model was not problem-free either. Though it was Yle's Administrative Council (elected by Parliament) that initiated and proposed any increase of the television fee, the final decision was taken by the Government. It did happen on occasion that the Government gave a signal that a television fee increase proposal would not be approved, leading to the Administrative Council dropping the issue. Still, the political deliberation was done at the Administrative Council level.

During the years that the television fee was in place, the most common fears linked to a move to a tax-based model were that Yle's dependence on the Government would grow, and that both the level of funding and editorial independence would then be at risk.

In the new Finnish version of the tax model, every effort was made to eliminate such risks as far as possible. The existing order was a good basis for this, with a governance structure in which the highest decision-making body of Yle, the Administrative Council, is elected by Parliament (3) and designed to be representative, and with the political tradition that any major decisions concerning public service broadcasting, should be unanimous between all the political parties.

The **level of the collected assets** is not as vulnerable as it was in Finland in the licence fee model. The level of the collected Yle tax assets can be adjusted through slight technical changes in the Act on the Yle tax (adjusting the lower and/or upper limits of the Yle tax).

A widespread belief is that the **level of the assets allocated for public service** is less vulnerable in a licence fee model than in any tax model, which is considered to carry the risk that the state might cut the allocation and use the assets for other purposes. In the Finnish case there are two aspects to consider in this context:

1) The law: With the introduction of the Yle tax, *the Act on the State Television and Radio Fund was changed so that guarantees* were given (though not kept) with respect to the level of assets to be allocated. The law defined the amount to be allocated (at a sufficient level) and also the formula of the annual increases. With the licence fee model there had been annual increases of the television fee on the basis of the same principle during 2005-2012, but they were based on agreements and did not guarantee the amount collected.

2) The political reality: The economic downturn in Finland changed the picture and the politicians did not want to defend increasing the allocation to Yle while e.g. child care benefits and other social benefits were cut. However, skipping the increase could have happened anyway, regardless of whether the system was a licence fee model or a tax model. Still, it may have seemed more natural with the tax model.

Among the pros of the Yle tax model it is also worth mentioning that:

- the licence fee evasion ceased to exist
- Parliament decides about the allocations to the Fund,
- the level of the collected assets is relatively easy to govern,
- lower collection costs,
- single households pay less than before, couples pay a little more, the fee decreased in more than a million households (but households with many persons with earnings may be obliged to pay clearly more than before),
- the system is generally regarded as fair (with people with low income exempted or paying less),
- with almost everybody paying, people feel that they own Yle and the barriers to contacting Yle seem to be lower.

Lost pros of the licence fee model, e.g.:

- the television fee was not in any way linked to the state budget or the state finances. With the Yle tax there is a technical link,
- with the licence fee model people paid 1-12 months in advance. With the move to the Yle tax model a one-time liquidity gap occurred. It was solved by Yle taking a liquidity bank loan,
- television fee payers had a sense of “usership”, whereas tax payers have a sense of inescapable compulsion.

Concluding remarks

The Finnish Yle tax model was designed to give sustainable guarantees with respect to the level of funding and the protection of the independence of the broadcaster. It is hard to see how the guarantees could have been made stronger. Still, we have seen the law changed twice, and the goal of a secure level of funding thus not fulfilled as intended.

The existing situation and tradition at large with respect to the governance of public service broadcasting also has a bearing on how fit the system might be for a responsible transition to a tax model. With respect to public service broadcasting the role of the Parliament has been stronger in Finland than in most other countries. This paved the way for what possibly in Finland’s case was a reasonable solution considering that the licence fee model did not work in Finland anymore. Whether the legal safeguards concerning a secure level of funding will hold in the future, after the annual adjustments in the level of funding already have been cancelled twice, remains to be seen, though. This will depend on the Parliamentary working group proposals to be given in June, and on whether the group can continue with the tradition of unanimous decisions. In the long run, it will also depend on the future realities of the Finnish economy.

References

- (1) Act on the State Television and Radio Fund (745/1998) with changes made (475/2012). <http://www.finlex.fi/fi/laki/kaannokset/1998/en19980745.pdf>
- (2) A new act on the Yle tax came into effect on 1 January 2013 (484/2012). It is available in Finnish and Swedish. Lag om rundradioskatt: <http://www.finlex.fi/sv/laki/ajantasa/2012/20120484>
- (3) Act on Yleisradio Oy (Finnish Broadcasting Company) (1380/1993) <http://www.finlex.fi/fi/laki/kaannokset/1993/en19931380.pdf>

Changes were also made in a number of tax laws.