



Rural-Urban Outlooks: Unlocking Synergies (ROBUST)
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Natural Resources Institute Finland (Luke)

Hilkka Vihinen

hilkka.vihinen@luke.fi

Rural-Urban Governance Arrangements and Planning Instruments

Multiple Residency Taxation Initiative

Helsinki city-region, Finland

1. Overview

Municipal taxes are the main means for municipalities (urban and rural) to cover their costs. This example is about a recent and failed initiative to launch a new governance arrangement where those who have multiple residences could have become official residents in more than one municipality, and would have paid their local taxes to both places, and had the same participation rights as the permanent residents in the area. This arrangement would give rural-urban interaction a very concrete, individual citizen level materialization. Most Finns who have multiple residencies are typically urban dwellers who spend a lot of time in their second homes in the countryside. Multiple residency is, in the Finnish case, perhaps the most substantial form of rural-urban interaction. The phenomenon is connected to commuting (part of the year) and distance working, but also to leisure. Many retired people have more than one place to live. In many cases, multiple residency takes place in a seasonal home / summer cottage, but not exclusively, as these second homes are increasingly not cottages anymore, and allow living there comfortably throughout the year. The converse is also true: people living in rural areas may have a second home in an urban area. The system of paying taxes in more than one municipality would have been a governance arrangement that makes it possible to share the cost of providing local services and maintaining local infrastructure by those who use these services regularly in more than one municipality.

2. Main Challenges

This kind of arrangement has been of interest to various rural policy actors for a long time. It has become relevant once more due to recent rapid urbanisation and also because multiple residency is currently a major form of counter-urbanisation in Finland. The challenge is how to arrange and govern the inequitable share of municipal taxes: many urban dwellers spend a considerable part of the year in a municipality where they do not pay income taxes. These taxes are the main means for municipalities (both urban and rural) to provide services and maintain infrastructure. However, the proposed new taxation system would not benefit all of the municipalities, and the bigger towns in particular have been against the reform. In addition, the Ministry of Finance is against any changes to the present taxation system.

There are also potential constitutional challenges, as the present Constitution does not recognize this option.

2.1. Equitable taxation

- > If the proposal for multiple residency would be accepted, can an equitable tax structure be developed for both the permanent and temporary / seasonal residency municipality?

2.2. Equal access to public services for both permanent and seasonal residents

- > How to ensure that the changes in municipal public services would treat permanent and temporary inhabitants equally?

3. Main Insights

3.1. Insights related to the broad area of “network governance”

The Ministry of Finance published a report "Multi local living arrangements for Finland? Report on dual municipal residency" in the spring of 2018. It concluded that the multiple residency issue should be better identified in future policies that pertain to the citizen participation process for planning and decision-making in municipalities (which is in accordance with municipal law). The present legislation does not prevent participation in the community, but there are limitations. In principle, second home owners can participate in the municipal life of their second home community, but they cannot, for example, vote in a municipal election there. Municipal partners, such as civil society, NGOs, and the companies which operate in the area, can be involved in the process to develop the multiple residency designation. If the proposal will be accepted one day, in the taxation and other legislation, it would most probably require new governance thinking due to the multiple new actors operating in the service sector.

3.2. Insights related to mechanisms of cross-sectoral coordination and cooperation

The acceptance of multiple residency as an official form of living has not come to pass and the above mentioned report concluded that it is impossible to implement, at least for the time being. Even the Constitution of Finland sets preconditions to the rights which are connected to the multiple residency. The multiple residence as a legal definition the franchise or the eligibility in several municipalities or allocation of taxes between the municipalities would be constitutionally problematic. So, the implementation would require numerous changes to existing laws and cooperation between several ministries and local government authorities. The matter is not under discussion at the moment.

3.3. Insights related to the role of (actual, potential) social, organizational, institutional innovations

Multiple residency is not a new concept and it has been under discussion a number of times in Finland, in different contexts and at different times. In Finland there are more than half a million summer cottages which is, with respect to the number of inhabitants (5.5 million), a significant phenomenon. The number is still increasing and, according to the estimates of Statistics Finland, more than 4,000 new summer cottages were built in 2017. More than a half (67%) of the cottage owners have residency in a different municipality. A new phenomenon is that, because the building standard of summer cottages has improved, people are spending increasingly longer periods of time there. People are telecommuting and even commuting from their seasonal residences. However, the present legislation does not acknowledge this multiple residency as an official type of residency. The above-mentioned report was the first more comprehensive report on the matter and even though it ended with negative conclusions, the matter will surely arise again in the future. The report examined the impact of dual municipal residency on, for example, services, taxation, the system of central government transfers to local government, participation by municipal residents, the right to vote and eligibility for office. The report also described the ways in which society has changed and the effects of this on people's activities, from a multi-locality perspective.

Many people divide their time increasingly between their home municipality and the municipality in which they have a second home. Flexible working arrangements and the development of digital services have also made it easier for people to stay for periods in places that are not within their municipality of residence. From the viewpoint of municipal residents, the municipality of the future could be one that reflects the idea that there may be a number of localities which together make up a person's municipal identity. The Finnish dual residency practice common today embodies this very concept of multi-local living.

4. Effectiveness Indicators

Multiple residency has not been officially established in Finland so only preliminary considerations can be presented regarding its effects. From the point of view of the inhabitants and municipalities, strengthening the legislative and fiscal status of multiple residency would formalise the type of residency that has in fact existed for a long time. This would improve the inhabitants' freedom of choice in regard to their living options. Secondly, the official status provides a foundation to develop grassroots level rural-urban connections. This could increase especially the city dwellers' interest and understanding about matters of the countryside and strengthen inhabitants' participation with issues in their second residency, because they would have a more recognized role as members of two different regions. This could also promote new governance arrangements between residents and different stakeholders.

One weakness would be that making multiple residency an official form of living requires more administrative and legislative preparatory work, which was stated also in the report of the ministry. This would require changes, among other things, to taxation laws, municipal laws and possibly even in the Constitution. It would bind authorities from several ministries and resources of the local government, when the allocation of taxes would change. Secondly, perhaps at least in the beginning, it would be difficult to ensure the equal treatment of the inhabitants and municipalities. This could give birth to conflict between residents and municipalities and between the people's different domiciles: divisions of labour are always also divisions of power, and their changes easily cause conflicts.

5. Illustration and further information

Adamiak, C., Pitkänen K. & Lehtonen O. (2016). Seasonal residence and counterurbanization: the role of second homes in population redistribution in Finland. *GeoJournal* (published online).

Multi-local living arrangements for Finland? Report on dual municipal residency. Ministry of Finance publications 3/2018.

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