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Determination of wind farm property tax

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Determination of wind farm property tax

Determination of wind farm property tax

The taxable property in a wind turbine consists of the foundation, the tower, and the outer shell of the nacelle (Supreme Administrative Court of Finland 11.11.2004 volume 2887). Property tax is calculated based on the investment cost of these three parts. Machinery and equipment are not a part of the property and do not affect the amount of the property tax.

The owner of a wind farm typically provides the Finnish Tax Administration a breakdown of the costs of the taxable wind turbine parts. The costs vary depending on the time of construction and the type of wind turbine, but in this example, it is assumed that the cost of the wind turbine and its foundation are about one million euros per megawatt. About 30% of this investment cost is subject to property taxation (i.e. foundation, tower, and outer shell of the nacelle).

If the investment cost of an onshore wind turbine is EUR 3.6 million for the entire turbine, $\text{EUR } 3.6 \text{ million} \times 0.3 = \text{EUR } 1.08 \text{ million}$ of this turbine is taxable. According to the Government Decree (Decree 1036/2018

of the Ministry of Finance), the taxable value of the real estate in the first year is 75% of the investment value, i.e. in this example $\text{EUR } 1.08 \text{ million} \times 0.75\% = \text{EUR } 810,000$.

The municipality may determine its own property tax rate

The municipality may determine its own property tax rate. According to the legislation the municipality may define a general property tax rate, a power plant tax rate, a tax rate for summer cottages etc. A wind turbine is taxed either according to the general tax rate or according to the power plant property tax rate depending on the municipality and the capacity of the wind farm.

The average general property tax in Finland was 1.06 % in 2018. The maximum power plant property tax rate that the municipality may use is 3.1%. If the power plant property tax rate has not been determined, the power plants will be taxed according to the general property tax rate.

The wind turbine's property tax is also determined by the general property tax rate if the capacity of the wind farm is less than 10 megavolt amperes (MVA). If the capacity of the wind farm is 10 MVA or more, the property tax is determined according to the power plant property tax rate.

A 4-megawatt (MW) wind turbine may have, for example, a 4.8 MVA generator. So, for example, if a small wind farm had one or two such wind turbines, they would be taxed according to the general property tax. If there were three or more turbines, they would be taxed by the power plant property tax rate.

The property tax value of a wind turbine decreases by 2.5% annually. The taxable value of the example wind turbine mentioned before was EUR 810,000 in the first year, and in the second year it would be EUR

$810,000 - \text{EUR } 810,000 \times 2.5\% = \text{EUR } 789,750$. There is also a General Construction Cost Index that affects the value of the property. As the index varies every year, it is not taken into account in this example.

In this example the property tax of a wind turbine located in a wind farm in a municipality that has set the power plant property tax rate at 3.1% would be.

in the first year $\text{€ } 810,000 \times 3.1\% = \text{€ } 25,110$

and in the second year $\text{€ } 789,750 \times 3.1\% = \text{€ } 24,482$

The property tax revenue is multiplied by the number of wind turbines, i.e. the property tax collected from the wind farm of 10 wind turbines in the first year would be $\text{€ } 25,110 \times 10 = \text{€ } 251,100$.

In real life, during the past few years the property tax of the wind farms in Finland has varied between € 20,000 and € 35,000 on the first operating year.

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