

Corporate and Personal Taxes In Finland -the Description of Tax System

Tax is a cost of doing business just like any other cost. It is vitally important for any business to know the additional tax costs of operating outside its own country. Skilled professional advice is essential to ensure that businesses are structured in such a way that overall tax liability is kept to an absolute minimum.

This description of Finnish Tax System is no substitute for international tax advice, which should be sought from an international tax practitioner before any action is taken or a decision is made.

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I Main Legal Forms

Legal form	Partnership and Limited Partnership (LP)	Ltd (private corporation) and Plc (public corporation)
Characteristics		
partners/shareholders -Number	Minimum two partners Partnership: General Partners LP: At least one General Partner and one Limited Partner	Ltd: min 1 shareholder Plc: min 1 shareholder
Directors	Management by partners	Ltd: min 1 director + 1 deputy Plc: min 3 directors
Establishment	Deed	Notarial Deed
Registration	Trade register; registration takes usually less than a month	
Minimum Capital	Partnership: no minimum capital LP: At least one Limited Partner with financial input	Ltd: 2.500 € Plc: 80.000 €
Liability	Unlimited for General Partner, limited for Limited Partner	limited
Governance	No formal requirements	Shareholder and director meetings
Audit requirements	Audit mandatory if two out of three conditions are satisfied for consecutive years: <ul style="list-style-type: none"> - turnover min 200 t€ - balance sheet min 100 t€ - employs at least 3 people New Auditing Act came into operation 1.7.2007. The new law contains implementing provisions concerning audit requirements.	Audit mandatory if two out of three conditions are satisfied for consecutive years: <ul style="list-style-type: none"> - turnover min 200 t€ - balance sheet min 100 t€ - employs at least 3 people New Auditing Act came into operation 1.7.2007. The new law contains implementing provisions concerning audit requirements.
Taxation	All income is assessed on individual partners; part of the income is taxed as capital income depending on the net assets of the partnership and rest is taxed at progressive rate	Subject to corporation tax, 2007: 26 % flat
Usage	Uncommon due to unlimited liability and in most cases higher rates of tax	More common especially with bigger incomes

II Corporation Tax

Legal Form	Resident corporation	Permanent Establishment (PE)
Description		
General description	Corporation tax	Corporation tax
Taxable entities	Corporations incorporated in Finland	PE located in Finland
Taxable income	Worldwide profits	All income attributable to PE, whether derived from Finland or abroad
Calculation of taxable profits	Accounting profit is adjusted for various tax add-backs and allowances to arrive to chargeable profits	Accounting profit is adjusted for various tax add-backs and allowances to arrive to chargeable profits
Interest payments	Interest paid on borrowed capital is deductible. Dividend paid on equity capital is not deductible. There are no specific rules concerning thin capitalisation other than transfer pricing rules.	Interest paid on borrowed capital is deductible. Dividend paid on equity capital is not deductible. There are no specific rules concerning thin capitalisation other than transfer pricing rules.
Related party transactions	All related party transaction must take place on arm's length basis. Transfer pricing rules in effect from 1.1.2007 onwards which are in line with EU-regulations.	All related party transaction must take place on arm's length basis. Transfer pricing rules in effect from 1.1.2007 onwards which are in line with EU-regulations.
Tax year, return and payment	The financial year of a company may be any 12- month period. Companies must file the tax return no later than 4 months after the end of the financial year. Companies are required to settle tax on account during the course of the year.	The financial year of a company may be any 12 month- period. Companies must file the tax return no later than 4 months after the end of the financial year. Companies are required to settle tax on account during the course of the year.
Capital Gains	Capital gains and losses are usually assessed as part of company's profits subject to corporation tax. Partnerships have different kind of rules. Sales of shares in associated companies can, under certain conditions, be tax-free.	Capital gains and losses are usually assessed as part of company's profits subject to corporation tax.
Losses	Losses can be carried forward and set off against income of the subsequent 10 years. Losses are utilised on a first-in, first-out basis. Capital losses may have a set-off period of 3-5 years.	Losses can be carried forward and set off against income of the subsequent 10 years. Losses are utilised on a first-in, first-out basis. Capital losses may have a set-off period of 3-5 years.
Tax group	There is no group taxation in Finland. All group companies are taxed separately. Moreover, some kind of group taxation may be achieved by tax-deductible contributions, which are taxed at the other company.	There is no group taxation in Finland. All group companies are taxed separately.

Tax rate	2007:26%	2007:26%

III Taxes for individuals¹

		Residents	Non Residents
Income Tax	General Description	Tax levied on the chargeable income of a chargeable person for a year of assessment	
	Taxable Entities and Taxable Income	Residents are taxed on their worldwide income with some relief for double taxation.	Non residents are taxed on income derived in Finland including investments. There is an expatriate regime for a flat tax of 35 % for a period of 48 months.
	Types of Taxable Income	Capital income: - property income -income from capital investment (interest, sale of goodwill, dividends (partly), royalties, annuities) -income from business activities (partly) Earned income -income from business activities (partly) -dividends (partly) -employment income including benefits in kind stock options	
	Calculation of Income	<u>Dividends to residents</u> From listed companies 30% of dividend income is exempt and 70% is taxed as capital income. Dividends from non-quoted shares are divided into capital income and earned income. 9 % of the shares' mathematical (corrected net asset) or market value (foreign shares) at the end of the fiscal year preceding the tax year is regarded as capital income, which is tax exempt until € 90,000 per year per individual. If the amount of 9 % exceeds € 90,000, 30 % is tax exempt and 70 % is taxed as capital income with tax rate 28 %. The rest of dividend (the amount over 9 %) is taxed 70 % as earned income with progressive tax rate and 30% is tax exempt.	
	Tax Year, Tax Assessment and Tax Payment	Tax year - calendar year. Individual self- assessment returns should be completed and filed by mid May Tax is deducted at source on employment income	
	Losses	Losses can be deducted from other income. Some restrictions.	

¹ Basic principle in Finnish taxation is that almost every kind of income is taxable and at the same time tax rate is relatively low. Taxable income for individuals is divided into capital income and earned income, with different rules and tax rates.

	Tax rate	<p>State tax rate is: 12,000 – 20,400 tax rate of 9 % 20,400 – 33,400 tax rate of 19,5 % 33,400 – 60.800 tax rate of 24 % 60,800+ tax rate of 32 % In addition there is a municipality tax and sickness insurance and church tax. The highest marginal tax rate can go up to around 53%.</p> <p>These are tax rates for year 2007. Flat tax rate for capital income is 28 %.</p>	
		Residents	Non Residents
	General Description	Tax on increase in the value of asset between acquisition and disposal, chargeable to income	
Capital Gains Tax (CGT)	Taxable Entities and Chargeable Assets	Capital gain arising on the sale of a private residence is exempt if the person has lived in this property for at least 2 years during the period of ownership. Sale of business can also be tax exempt if sold under strict conditions to members of immediate family.	
	Calculation of Gain	The capital gain is calculated by deducting the acquisition and sale costs from the disposal proceeds. A minimum deduction of 20% of the sales price is applied. If the asset has been owned for at least ten years, the minimum deduction is 40%.	
	Tax year, tax assessment and tax payment	Tax year- calendar year Tax return has to be filed at latest early May (dates vary), Tax can be paid interest- free up until the end of January and must be paid at latest by December of the following year and February the year after(eg tax for 2006 will have to be paid at the latest by December 2007 (first half) and February 2008 (second half)).	
	Losses	Losses can be deducted from gains arising in the same year or the following 3 years. No possibility of carry- back.	
	Tax Rates	28 %	

		Domiciled	Non Domiciled							
General Description		Chargeable on estates and beneficiaries resident in Finland. Transfer of a business or a farm to a descendant is partially exempt from taxes.								
Inheritance Tax (IHT)¹	Taxable Entities and Chargeable Assets	All assets.								
	Calculation of Charge	Calculation based on the market value of assets								
	Taxable Events	Death								
	Allowances	Allowance for household belongings of € 3,400 Spouse allowance of € 6,800 Payments of up to € 35,000 per recipient from life insurance policies are exempt								
	Tax rates	<table border="0"> <tr> <td>€</td> <td>Rate</td> </tr> <tr> <td>3,400 – 17,000</td> <td>10%</td> </tr> <tr> <td>17,001 – 50,000</td> <td>13%</td> </tr> <tr> <td>50,000+</td> <td>16%</td> </tr> </table> <p>There are three different classes for recipients for inheritance tax purposes where the tax rates are multiplied by one (1st class), two (2nd class) or three (3rd class) ie the tax rate may be three times higher with the maximum rate of 48 %.</p> <p>A spouse, children and parents of the deceased belong to the 1st class. Brothers and sisters as well as their children belong to the 2nd class. The remaining belong to the 3rd class.</p>		€	Rate	3,400 – 17,000	10%	17,001 – 50,000	13%	50,000+
€	Rate									
3,400 – 17,000	10%									
17,001 – 50,000	13%									
50,000+	16%									

¹ There is also a gift tax in Finland with same basic rules as inheritance tax and in the same act. The Government came out with proposal for these two taxes based on different rules and tax rates in the future. This has not yet been confirmed in the Parliament.

IV Withholding taxes

	Payments to non-residents¹
Dividends	28,0 %
Interest	28,0 %
Royalties	28,0 %
On payments to artists and sportsmen	15,0 %

¹ Reduced rates of withholding tax may apply where there is an appropriate double tax treaty. Tax treaties are mainly based on the Model Tax Convention of the OECD. The double taxation of income is avoided in Finnish legislation with either the exemption method or the tax credit method.

V. Indirect taxes

		Residents	Non residents
Value Added Tax (VAT)	General description	Tax on the supply of goods and services in business activities.	
	Entities being obliged to levy VAT	Minimum turnover € 8,500 (registration obligatory), if turnover is less than € 8,500 entity is allowed to register	
	Taxable activities	<ul style="list-style-type: none"> Broad-based tax on most goods and services. 	
	Taxable activities – zero rated (examples)	<ul style="list-style-type: none"> subscribed newspapers and magazines sale of gold to the Bank of Finland goods and services sold in connection with the sale of a business 	
	Exemptions (examples)	<ul style="list-style-type: none"> health care, certain education, sale of properties (usually) Certain financial services, gold bullions, insurance services 	
	Refund of VAT	<ul style="list-style-type: none"> yes (if overpaid or if taxpayer is in export business and makes VAT purchases in Finland) 	
	Tax liability	<ul style="list-style-type: none"> Normally the supplier of goods and services is responsible for charging VAT. 	
	Tax rates	<ul style="list-style-type: none"> Standard rate = 22% Reduced tax rates for certain commodities and services are 17%, 8% and 0%. 	
	Administrative obligations	monthly tax returns	
Stamp Duty Land Tax		<ul style="list-style-type: none"> 4 % 	
Stamp Duty		<ul style="list-style-type: none"> 1,6 % 	