International Tax

Finland Highlights

In Plain English

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Investment basics:

Currency – Euro (EUR)

Foreign exchange control – No

Accounting principles/financial statements – Finnish GAAP/IFRS applies. Financial statements must be prepared annually.

Principal business entities – These are the public and private limited liability company, general and limited partnership and branch of a foreign corporation.

Corporate taxation:

Residence – A company is resident if it is registered (incorporated) or otherwise established under Finnish law.

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Finnish-source income or income attributable to their Finnish permanent establishments. Foreign-source income derived by residents is subject to corporate tax in the same way as Finnish-source income. Branches generally are taxed according to the same principles applicable to subsidiaries.

Taxable income – Corporate tax is imposed on a company's profits, which consist of business income, passive income and capital gains. Normal business expenses may be deducted in computing taxable income. Complex rules govern the depreciation of assets.

Taxation of dividends – Dividends received by a Finnish resident company from another Finnish company generally are exempt from tax, with certain exceptions, as are dividends received by a Finnish company from a

company in an EU/European Economic Area (EEA) country. Dividends received from all other countries generally are taxable.

Capital gains – Capital gains generally are treated as ordinary income and taxed at the standard corporate rate of 20%. However, gains on qualifying holdings are exempt if certain conditions are satisfied (see under "Participation exemption").

Losses – Losses may be carried forward for 10 years. The right to carry forward tax losses is forfeited if more than 50% of the shares of the company are transferred during or after the year in which the losses were incurred. Further, if more than 50% of the shares in a company that owns at least 20% of the shares in the Finnish loss-making company have been transferred, the relevant portion of the shares in the Finnish loss-making company are deemed be transferred. The carryback of losses is not permitted.

Rate – 20%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Foreign tax paid may be credited against Finnish tax assessed on same profits, but the credit is limited to the amount of Finnish tax payable on the income. The credit may be carried forward for five years.

Participation exemption – Gains derived from the sale of shares are not taxable for a Finnish corporate taxpayer when the shares sold are treated as fixed assets that are deemed to be part of the seller's business income- generating assets (rather than passive income) if:

- The seller company owns at least 10% of the share capital of the entity;
- The shares have been held for at least one year, and the sale does not take place more than one year after the seller company's ownership in the entity falls below the 10% threshold;

- The disposed shares are not shares in a real estate company or limited liability company whose business activities consist principally of governing or owning real estate; and
- The disposed shares are of a Finnish company, a type of foreign company listed in the EU parent-subsidiary directive or a company resident in a country that has concluded a tax treaty with Finland, provided the treaty provisions on dividends are applicable to distributions by the company.

Holding company regime – See under "Participation exemption."

Incentives – Finland has adapted its incentives to the EU's regional and structural policy objectives and state aid rules. Certain areas in Finland are eligible for EU- financed incentives in some form.

Withholding tax:

Dividends – Dividends paid to a nonresident company are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty or an exemption applies under the EU parent-subsidiary directive. If dividends are paid to an EEA resident shareholder, domestic nondiscrimination provisions may lower the withholding tax rate to a level corresponding to similar domestic distributions.

Interest – Interest payments to nonresidents generally are exempt from tax in Finland.

Royalties – Royalty payments made to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty or an exemption applies under the EU interest and royalties directive.

Technical service fees – No

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The municipal authorities levy a real property tax ranging between 0.41% and 6%. The tax is deductible for corporate income tax purposes.

Social security – The employer is required to withhold social security, pension insurance contributions and unemployment insurance contributions from the gross salary of its employees.

Stamp duty – No

Transfer tax – A 1.6% tax is levied on transfers of Finnish securities, and a 4% tax is levied on transfers of Finnish real property and certain leasing rights in Finnish real property. Transfers of shares in real estate-rich companies or holding companies of real estate-rich companies are subject to a transfer tax of 2%. Some exemptions are available.

Other – A tonnage tax regime is available for shipping companies.

Anti-avoidance rules:

Transfer pricing – Finland generally follows the OECD transfer pricing guidelines. Affiliated companies are required to comply with the arm's length principle. The tax authorities may adjust the profits of a Finnish company if the taxpayer has entered into a transaction under conditions that differ from those that would have been agreed upon between unrelated parties. Any profits that would have accrued to the company but for the non- arm's length terms may be included in the company's profits. Transfer pricing documentation is required.

Thin capitalization – There is a general limitation on the deductibility of interest expense. Net interest expense is deductible up to EUR 500,000, but expense exceeding that amount is deductible only up to 25% of the company's adjusted taxable income (i.e. adjusted for interest expense, tax depreciation and net group contributions). In addition, under Finland's implementation of the provisions in the EU ATAD into its domestic law, net interest expense paid to third parties is deductible up to EUR 3 million even if the 25% limit is lower. The implementation of the ATAD also extends the interest expense limitation rules to apply to loans from third parties. The rules do not apply if the company can demonstrate that its equity balance sheet (equity/assets) ratio is equal to or greater than that of the group.

Controlled foreign companies – Finland's CFC rules have been revised to bring them in line with the EU ATAD, although the new rules are stricter than what is required under the ATAD. A foreign entity may be deemed a CFC if the entity is controlled directly or indirectly by a Finnish tax resident and its foreign or domestic related parties and the effective tax rate in the foreign entity's country of residence is less than 3/5 of the Finnish corporate income tax rate, i.e. 12% (3/5 x 20%). A foreign entity is deemed to be controlled by Finnish tax resident if the Finnish tax resident, alone or jointly with its foreign or domestic related parties, owns directly or indirectly at least 25% of the capital of the foreign entity or its total voting power, or is entitled to at least 25% of the yield on the entity's assets. The net income of a CFC is taxable income for the Finnish tax resident. There are several exceptions to the applicability of the CFC rules, i.e. based on the nature of activities carried out by the foreign entity.

Disclosure requirements – Finland has implemented country-by-country (CbC) reporting and notification requirements in line with the OECD BEPS project that apply to multinational group companies with a consolidated turnover of at least EUR 750 million. The CbC report must be submitted within 12 months from the end of the accounting period and the filing of the CbC notification is due by end of the accounting period.

Other – There is a broad substance-over-form doctrine in Finnish tax law and practice.

Compliance for corporations:

Tax year – The financial year is used. If two or more financial years end during the same calendar year, the years are combined for tax purposes.

Consolidated returns – Consolidated returns are not permitted; each company is required to file a separate tax return. However, profits may be transferred between eligible Finnish companies through a group contribution regime. The companies must engage in business activities, there must be at least a 90% direct or indirect holding between the entities and the ownership must have lasted for the full tax year.

Filing requirements – A company is required to file its tax return within four months of its financial year end. Advance corporate tax is paid monthly.

Electronic filing is required for tax returns, as well as applications to change (increase or decrease) advance corporate tax.

Penalties – Penalties apply for failure to file, late filing or filing a fraudulent return.

Rulings – A taxpayer may request a ruling from the tax authorities on the tax consequences of a specific transaction. Such rulings are binding on the authorities, but not on the taxpayer.

Personal taxation:

Basis – Finnish residents are taxed on their worldwide income. Nonresidents are taxed only on Finnish-source income as defined in the Income Tax Act, and income and gains from immovable property located in Finland.

Residence – An individual is resident if he/she has a principal place of abode in Finland or he/she spends more than six months in Finland (either within a calendar year or straddling two calendar years). A temporary absence (up to two to three months) will not break the continuity of the six-month period.

Filing status – Each resident taxpayer is provided with a tax return that has been filled in by the tax authorities; joint filing or assessment is not available.

Taxable income – Finland operates a dual income tax system for individuals, under which income is divided into earned income and capital income. Earned income is subject to national income tax, municipal income tax, church tax (if the individual is a member of either of the two state churches), public broadcasting tax and social security contributions.

Capital gains – Capital gains are taxed as income from capital.

Deductions and allowances – Deductions for expenses incurred in acquiring and maintaining income can be taken from taxable income. Certain deductions are applicable only from earned income (e.g. commuting costs, professional literature, tools and equipment and certain travel expenses), and some apply only to capital income (e.g. the deduction of interest on a home mortgage).

For municipal taxation purposes, a basic allowance up to EUR 3,570 is granted to low-income taxpayers. A municipal earned income allowance is granted up to a maximum of EUR 1,630, the deduction of which is calculated before the basic allowance. The basic allowance and earned income allowance are granted ex officio.

A national earned income allowance is available up to EUR 750.

Rates – Earned income below EUR 17,600 is not subject to national income tax; progressive rates up to 31.25% apply above this amount. However, municipal income tax, church tax and social security contributions apply to income below EUR 17,600. The municipal rates range from 16.50% to 22.5%, and potential church tax rates are 1% to 2.2%.

A surtax of 5.85% is levied on pension income exceeding EUR 47,000 (after deduction of the pension income allowance).

Nonresidents are taxed at a 35% rate on income earned from Finnish sources.

Capital income is subject to national income tax at a flat rate of 30% on income up to EUR 30,000, and at 34% on income exceeding this amount.

Other taxes on individuals:

Capital duty – See below under “Transfer tax.”

Stamp duty – No

Capital acquisitions tax – No

Real property tax – The municipal authorities levy a real property tax up to 6%. Rates vary by municipality and by type of real property (e.g. land, permanent residences, second homes).

Inheritance/estate tax – Inheritance tax is levied at progressive rates up to 33%, depending on the family connection between the deceased and the inheritor.

Net wealth/net worth tax – No

Social security – The employer is required to withhold 6.75% of an employee’s gross salary for pension insurance contributions (8.25% for employees aged 53 to 62) and 1.50% for unemployment insurance contributions. If an employee’s annual earned income is at least EUR 14,282, a health insurance premium of 1.54% also is payable by the employee, which is included in the individual’s personal tax withholding percentage.

Other – A 1.6% tax is levied on transfers of Finnish securities, and a 4% tax is levied on transfers of Finnish real property and certain leasing rights to Finnish real property. Transfers of shares in real estate-rich companies or holding companies of real estate-rich companies are subject to a transfer tax of 2%. Some exemptions are available.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Each individual receives a pre- filled in tax return from the tax authorities. If the return is incomplete or the individual does not agree with the return, it must be amended within a specific period. The tax return filing due dates are 7, 14 and 21 May. Each individual will receive his/her due date in the pre-filled tax return. Tax on employment income is withheld by the employer for each pay period. A taxpayer can make a prepayment to cover the final tax.

Penalties – Penalties apply for noncompliance (e.g. late filing) in amounts ranging from EUR 50 up to a progressive rate of the income not declared. The penalties are at the discretion of the tax authorities, within established limits.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of services and certain other transactions.

Rates – The standard rate is 24%, with reduced rates of 14%, 10% and 0% applying in certain cases.

Registration – If the turnover from business activities in a certain financial year does not exceed EUR 10,000, VAT registration usually is not required, and no VAT is levied (although this threshold does not apply to foreign entrepreneurs that do not have a fixed establishment in Finland). If the financial year is not 12 months, turnover of the financial year is proportioned for 12 months. If the turnover of the taxable person in a particular financial year is less than EUR 30,000, the taxable entity may be entitled to partial VAT relief.

In certain cases, the purchaser, rather than the seller, is liable for VAT under the reverse-charge mechanism, although the seller may have reporting obligations. The reverse charge applies if the purchase is made from a foreign supplier that does not have a fixed establishment that intervenes in the supply in Finland, or that has not applied for voluntary VAT registration in Finland. The reverse charge also applies to certain sales of construction services and trade on emission rights under certain conditions, and to certain sales of scrap and waste and investment gold.

Filing and payment – VAT returns and payments generally are due on a monthly basis. Quarterly or annual reporting and payments are available only if the annual turnover is below EUR 30,000 or EUR 100,000, depending on the circumstances.

Under the tax reporting and payment scheme, each VAT- taxable person has an electronic MyTax portal through which returns and payments are administered. Electronic returns are mandatory; hard copies of returns are allowed only in special cases, such as where technical obstacles prevent electronic filing.

The VAT return and payment is due by the 12th day of the second month following the VAT period. If the due date falls on a weekend or a public holiday, the due date is the following business day. European Sales Listings (ESL) must be filed on a monthly basis by the 20th day of the month following the relevant VAT period, provided there have been EU sales to be reported. Penalties apply for late reporting and payment.

An obligation to submit Intrastat declarations on arrivals or dispatches arises when an annual threshold of EUR 600,000 (for intracommunity acquisitions) or EUR 600,000 (for intracommunity sales) is exceeded. The due date for Intrastat declarations is the 10th business day of the month following the Intrastat period.

VAT payers with a maximum of EUR 500,000 revenue in 12 months may account for their VAT on a cash basis. The cash-basis VAT applies only to supplies that take place in Finland; imports, exports and intracommunity supplies and acquisitions are outside the scope of the rule.

The competent authority regarding the VAT on imports generally is the Finnish tax authority, instead of Finnish Customs, if the importer is a VAT-registered entity. VAT-registered companies in Finland must report the import VAT and the tax base on the VAT return for imports where the relevant customs decision is issued.

Source of tax law: Income Tax Act, Business Income Tax Act, Value Added Tax Act, Tax Assessment Act

Tax treaties: Finland has concluded around 70 tax treaties. Finland signed the OECD multilateral instrument on 7 June 2017.

Tax authorities: Ministry of Finance, National Board of Taxes and tax offices