Doing Business in Finland

Part 3 of 3: Taxation in Finland

SCANDICORP

YOUR LINK TO NORDIC BUSINESS

Contents

Scandicorp Corporate Services 3

Overview 4

Corporate Income Tax 5

Capital Gains 8

Deductions 9

Interest Payments Depreciation 10

Dividends, Interest and Royalties 11

Group Taxation 12

Losses, Withholding Taxes 13

Thin Capitalisation, Transfer Pricing 14

Returns, Assessment and Payment 15

Value Added Tax 16

VAT Registration 18

Exemptions 19

Exports and Imports, Tax Rates 20

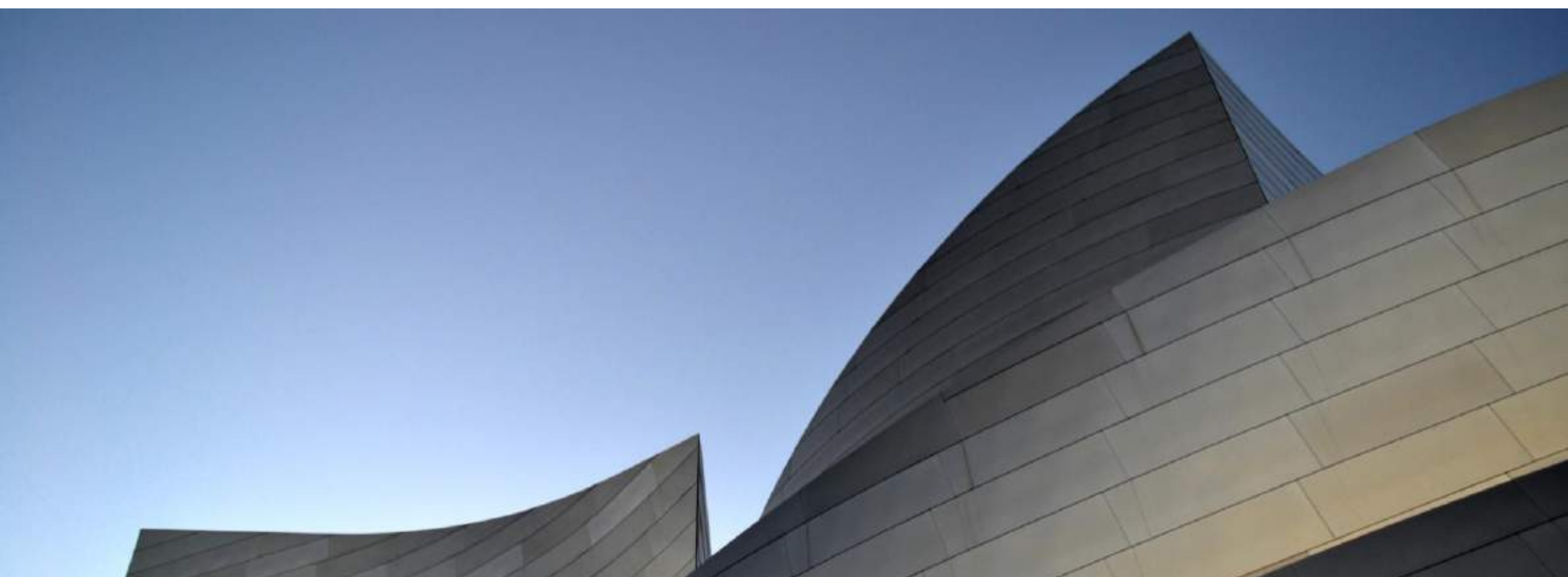
Zero Rate 21

Personal Taxes 22

Scandicorp Corporate Services

SCANDICORP offers efficient business solutions for companies and individuals wishing to establish a business presence in the Nordic countries. We have accumulated several years of experience that enables us to assist individuals, SMEs and large multinationals to gain access to the many opportunities in international business that the Nordic countries have to offer, including;-

- ✓ Company formation and related management services
- ✓ Local Directors and registered address services at prestigious addresses
- ✓ International tax planning
- ✓ Corporate administration and Business Support Services
- ✓ Accounting, payroll and introductions to external auditors
- ✓ Introductions to Banks, law firms and other professionals
- ✓ Assistance with local language related matters



Overview

Finland (Finnish name Suomi) is a republic which became a member of the European Union in 1995. Finland is bordered by Sweden to the west, Norway to the north, Russia to the east and by Estonia to the south across the Gulf of Finland. The population is circa 5.5 million. Helsinki, the capital, has 590,000 residents and if one includes its neighboring areas, the Greater Helsinki region's population is about 1.4 million. By area Finland is the fifth largest country in Western Europe – 338,440 km² with a population density of 17.9 inhabitants per km².

Forests cover three quarters of the country's surface area. Other outstanding features of Finland's scenery are around 190,000 lakes and almost as many islands and skerries. The principal archipelago and the self-governing province of the Aaland Islands lie off the south-west coast while the main lake district, centered on Lake Saimaa, is in the east. The climate of Finland varies between cold winters and fairly warm summers.

Finnish Business Services

SCANDICORP is able to assist and guide clients wishing to establish a presence in Finland.

Finland's central location in Northern Europe, its full membership in the European Union, its long-established connections to Russia, the Nordic and Baltic countries and experience in doing business with them are just some of the reasons why Finland is an ideal base for your business in this fast-growing Northern market area with over 80 million consumers.

Finland offers many opportunities for success, boasting both a highly educated and reliable work force and an infrastructure which functions exceptionally well. Finland also has a tradition of ranking high in the annual Global Competitiveness Reports published by the World Economic Forum.

Finland has traditionally been a small, open economy with a large export sector in relation to GDP. Finland, together with the other Nordic countries, is generally associated with high taxes, especially on the personal level. However the general corporate tax rate is today at a moderate 20%.

SCANDICORP, based in the heart of Helsinki, as well as in Stockholm and Oslo, close to all major banks and professional firms will be happy to guide you through the process of establishing a business presence in Finland.

Corporate Income Tax

Companies resident in Finland are liable to tax on their worldwide income. Non-resident companies are taxed on their income derived from Finland, and if they have a permanent establishment in Finland, on all income related to the permanent establishment. There is no definition for corporate residence in the tax laws. The general rule is that if a company is registered in Finland, it is also considered a tax resident of Finland.

The concept of income is rather broad because it covers several income types such as; proceeds from selling merchandise, rental income, fees and compensation for work or services and the profits from investing financial assets. The common liability to tax of almost all types of income has one important exception. A company can make a tax-exempt profit from selling off shares recorded as fixed intangible assets in its balance sheet (not as investment assets or financial assets) if the buyer is a company belonging to the same consolidated group of companies (profits from such selling are exempt, and losses are non-deductible).

Another exception is the fact that if a corporate entity -- not an individual -- is the beneficiary of dividends, the receipt of dividend is usually not taxed. Nevertheless, if the company paying out dividends is a resident of a non-tax treaty country outside the European Union, the dividend is considered taxable income.

All ordinary business entities are subject to income taxation. Corporate bodies for promoting the wellbeing of the public (e.g. charitable, philanthropic, cultural and sporting associations) are liable to income tax only to the extent that their income is deemed to be income from business activities.

Corporate bodies that are subject to corporate income tax are private and public limited companies, cooperatives and branches of a foreign trader. Some other types of entity may also be subject to corporate income tax. Partnerships are not regarded as separate taxable entities. The net income of a partnership is determined under the rules applicable to corporate bodies but is attributed to the partners according to each partner’s share in the partnership’s total income. Any losses of the partnership are confirmed and deducted at the partnership level.

The net income is taxed either as earned income or income from capital in the case of partners who are individuals. Resident partners of a non-resident partnership are taxed as if they were resident partners in a domestic partnership.

Taxable net income of a company is defined separately for each source of income. Net losses of one source of income are not deductible from a profit of another source of income. The business source of income is the most common source of income for companies. Normally the taxable net income is determined starting from net profit before tax as disclosed in the financial statements. If there are several sources of income, the net profit of each source of income has to be separated first. Then the net profits are adjusted by adding back expenses that are not allowable for corporation tax purposes or deducting tax-exempt receipts. Generally, the accruals basis is used in tax accounting as well as in compiling financial statements.

Normally a fiscal year is the same as the accounting period. However, it is possible for a fiscal year to contain more than one accounting period if the accounting period is shorter than a calendar year, Tax is levied in respect of fiscal years.

Tax-exempt income include;-

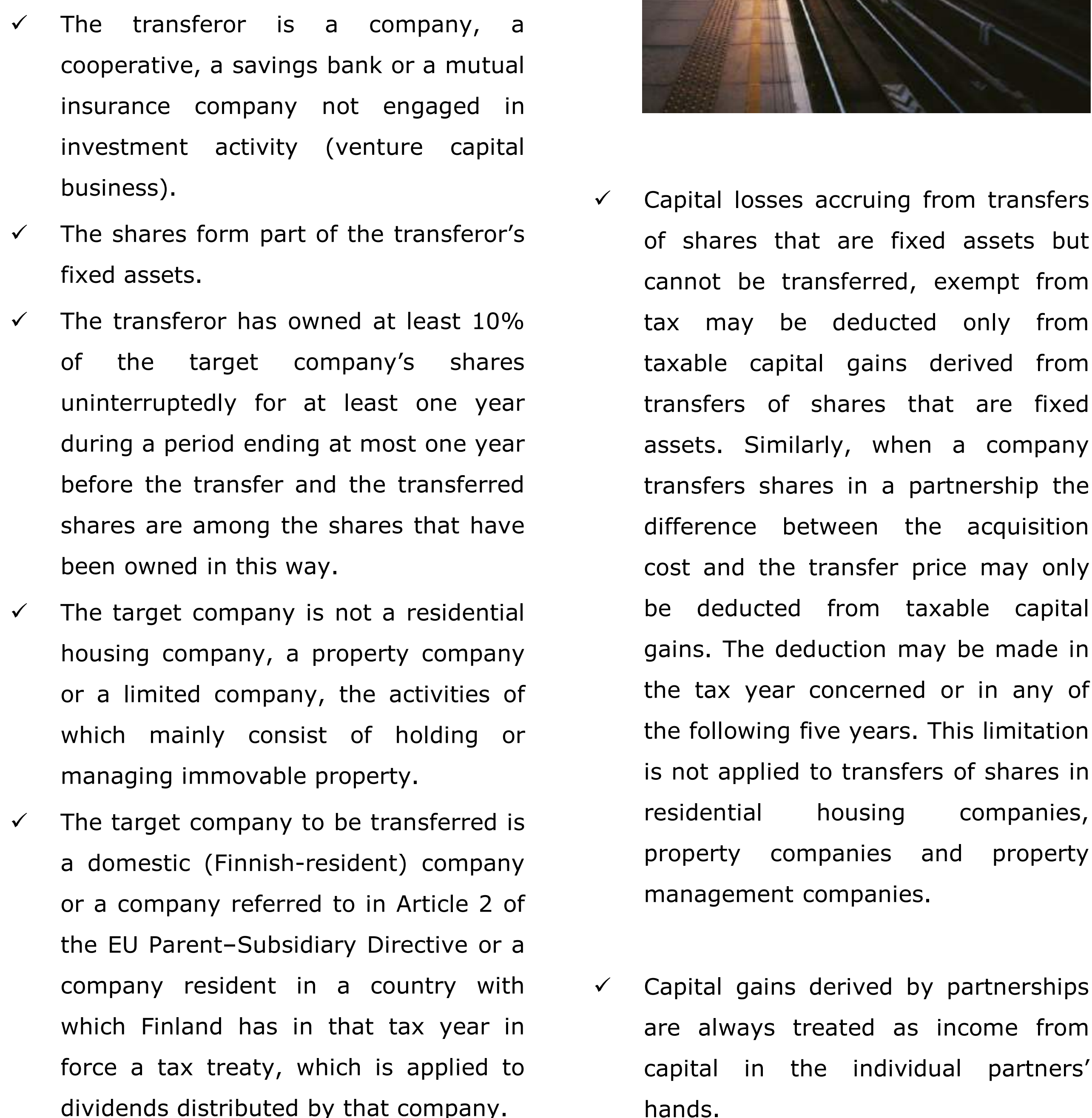
- ✓ Capital paid by shareholders and payments received from disposal of treasury shares (companies' own shares).
- ✓ Refunds of income taxes and interest on tax refunds.
- ✓ Connection charges collected by companies that maintain electricity, telephone, water, sewage or district heating systems are exempt from tax, provided that these charges are refundable to the payer.
- ✓ In some cases, distributions from partnerships and shares of income from domestic estates of a deceased person.
- ✓ The Finnish Film Foundation's (Suomen Elokuvasäätiö) support to domestic film producers.
- ✓ Merger gains.
- ✓ Certain dividends (see under 'Dividends, interest and royalties' below).
- ✓ Certain capital gains (see under 'Capital gains' below).

Inventories are treated as for statutory accounting. The use of inventory is a deductible as a service or as a raw material cost. Purchase of an inventory not consumed by the end of the financial year, decreases the materials or services costs and is taken into account as a variation in stocks. There are no inflation adjustments.

Capital gains

A majority of capital gains are treated as normal taxable income in corporate taxation. However, capital gains derived by companies from transfers of shares are not taxable income and the acquisition costs of shares are not tax-deductible where all of the following conditions are satisfied:

- ✓ The transferor is a company, a cooperative, a savings bank or a mutual insurance company not engaged in investment activity (venture capital business).
- ✓ The shares form part of the transferor's fixed assets.
- ✓ The transferor has owned at least 10% of the target company's shares uninterruptedly for at least one year during a period ending at most one year before the transfer and the transferred shares are among the shares that have been owned in this way.
- ✓ The target company is not a residential housing company, a property company or a limited company, the activities of which mainly consist of holding or managing immovable property.
- ✓ The target company to be transferred is a domestic (Finnish-resident) company or a company referred to in Article 2 of the EU Parent–Subsidiary Directive or a company resident in a country with which Finland has in that tax year in force a tax treaty, which is applied to dividends distributed by that company.



- ✓ Capital losses accruing from transfers of shares that are fixed assets but cannot be transferred, exempt from tax may be deducted only from taxable capital gains derived from transfers of shares that are fixed assets. Similarly, when a company transfers shares in a partnership the difference between the acquisition cost and the transfer price may only be deducted from taxable capital gains. The deduction may be made in the tax year concerned or in any of the following five years. This limitation is not applied to transfers of shares in residential housing companies, property companies and property management companies.

- ✓ Capital gains derived by partnerships are always treated as income from capital in the individual partners' hands.

Deductions

In general, expenses are deductible if they are incurred for the purpose of acquiring or maintaining income. The fact that it was the taxpayer's intention to incur a particular expense for this purpose is usually the decisive test for deductibility. Typical types of deductible expenses are purchases of materials and services, use of inventory, wages and salaries, social security expenses, purchases of investments as a form of depreciation (there are maximum depreciation rates accepted), rents, support services and other operating expenses as well as interest payable.

However, the following expenses are not deductible;-

- ✓ 50% of entertaining or promotional expenses.
- ✓ Income taxes, interest on taxes and tax penalties.
- ✓ Merger losses
- ✓ Write-downs of shares belonging to the enterprise's fixed assets
- ✓ Reserves (apart from some exceptions)
- ✓ Fines, parking tickets and similar penalty payments
- ✓ Bribes and benefits in the nature of bribes
- ✓ Loss or write-down of debtors other than sales debtors where the debtor is a limited company and the creditor is a company owning alone or together with other group companies at least 10% of the share capital of the debtor; group subsidies and other similar expenses without counter-performance to improve the financial position of such a limited (group) company are also non-deductible
- ✓ Depreciation exceeding the maximum depreciation rates accepted in income taxation, unless the depreciation is justified by reductions in value
- ✓ Expenses incurred for the purpose of acquiring or maintaining tax-exempt income (the part exceeding the tax-exempt income is deductible)
- ✓ Connection charges collected by companies that maintain electricity, telephone, water, sewage or district heating systems provided that the charges are refundable to the payer
- ✓ Acquisition costs of shares where the capital gains derived by companies from transfers of those shares are tax-exempt;

- ✓ Payments for redemption of companies’ own shares
- ✓ Expenses incurred for the purpose of acquiring or maintaining income that is exempt in Finland under a double taxation agreement

Management fees between group companies are deductible, but the service provided and its price need to be determined on the arm’s length principle.

Interest payments

Restrictions on the deductibility of interest expenses paid to directly or indirectly related companies or partnerships entered into force in 2014. These apply only to interest expenses that belong to the business source of income. Net interest expenses of up to EUR 500 000 are treated as deductible without restriction, but the deductibility of net interest expense in respect of related parties where it exceeds EUR 500 000 is limited to 25% of EBITDA (earnings before interest, taxes, depreciation and amortisation). Non-deductible interest expense may be carried forward indefinitely.

Depreciation

Maximum rates of depreciation for tax purposes depend on the type of asset (25% generally on plant and machinery, 10% on IP rights, 4% on residential and office buildings).

Dividends, interest and royalties

Generally, dividends received from other resident companies are exempt. The main exception to this rule are dividends received by a non-listed company from a listed company (unless the non-listed company directly owns 10% or more of the listed company). These dividends are fully taxable (before 2014, 25% of such dividends was exempt). There are some more specific rules to be applied to the taxation of dividends especially in banking or insurance-sector companies. Generally, similar principles are applied to dividends received from companies resident in the European Economic Area. Dividends received from outside the European Economic Area are usually fully taxable, subject to any contrary provision in a double tax treaty.

Interest receivable is normally treated as taxable revenue and interest expense as tax-deductible, apart from certain interest paid between group companies (see under 'Thin capitalisation' below). Interest revenue and expense between group companies has to follow the arm's length principle. Branches of private traders may not normally deduct interest expense or royalties paid to the same foreign organisation for the benefit of which it is acting, since these are not payments to a separate legal entity.

If a Finnish company pays dividends, interest or royalties to an individual or enterprise subject to limited tax liability (i.e. a non-resident), it has to withhold a tax at source, normally 20%, unless a tax treaty provides for a lower or zero rate. If dividends, interest or royalties are paid to a person subject to unlimited tax liability (i.e. a resident), these are generally not subject to tax at source. However, a withholding tax is applicable on certain payments of interest and of dividends paid to an individual (see under 'Withholding taxes' below).

Group taxation

Each company belonging to a group is taxed separately and there is no joint group taxation. Finnish tax legislation recognises a group contribution that allows transfer of financial resources and profit between group companies. Contributions from an affiliated company may be deducted from the taxable income of the contributing company and added to the taxable income of the recipient company. Such a transfer of income is allowed between group companies if the group of companies and the transfer of profit meet the following requirements:

- ✓ Both companies are resident in Finland
- ✓ The parent company owns directly or indirectly at least 90% of the share capital of the subsidiary during the whole tax year
- ✓ Both companies are engaged in business and are not savings banks, financial, insurance or pension institutions
- ✓ The accounting year of both companies ends on the same date (exceptions may be permitted)
- ✓ The contribution is recorded in the accounts of the contributing company as well as in the accounts of the recipient company
- ✓ The transfer is not a capital investment and is not directly related to the respective companies' mutual business operations
- ✓ The contribution does not exceed the amount of the contributing company's profit from business activities.
- ✓ Tax losses may not be transferred between group companies. Apart from the abovementioned group contribution, the arm's length principle needs to be applied if assets are transferred between group companies or if other transactions are carried out between group companies.
- ✓ Losses

Losses

If a company's business source of income, agricultural source of income or personal source of income shows a net loss, this loss is carried forward for the purpose of income tax and set off against income from the same source of income for a maximum of ten subsequent tax years. Losses are deducted in the order in which they are incurred. There are some exceptions in the deductibility of capital losses which were described earlier in the capital gains chapter.

If the ownership of more than 50% of the shares or interest in a company or a partnership has changed (for reasons other than inheritance or gift) during the year in which a loss is recorded or thereafter, the right to carry forward is lost. If such a majority transfer of shares or interest has taken place in a company or partnership that owns at least 20% of the shares or interest in the loss-making company or partnership, ownership of the shares or interest in the loss-making company or partnership is deemed to have changed. Regional tax offices may, upon application by the taxpayer, grant exemptions to this rule under certain conditions.

Transfer of losses between companies is possible in mergers and in divisions.

Withholding taxes

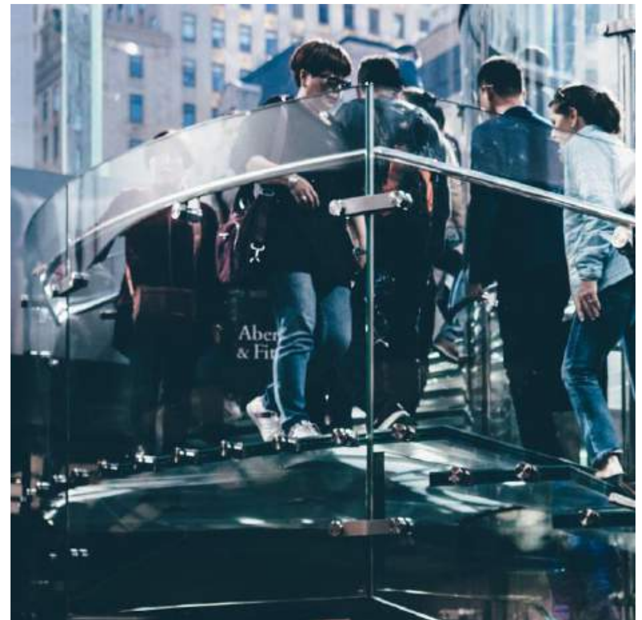
Withholding taxes or taxes at source are also applicable on certain payments of interests, dividends and royalties to non-resident companies. The withholding tax for dividends to a non-resident company outside the EEA is usually 15% - 20%. There is no withholding tax on interest paid abroad but there are exceptions where the debt is considered equivalent to equity or where the interest payment is considered as a hidden profit distribution. For royalties the withholding tax is usually 20% but 0% where the EU Interest and Royalty Directive applies.

Finland’s tax treaties and the EU Parent-Subsidiary Directive may eliminate or lower withholding taxes.

There are no withholding taxes on payments of income to other resident companies.

Thin capitalisation

There are no thin-capitalisation rules as such.



Transfer pricing

Transactions between related companies must follow the arm’s length principle. This transfer-pricing principle applies to both transactions between domestic and with foreign related entities. Transfer-pricing documentation obligations apply but do not generally extend to small or medium-sized companies. Transfer-pricing methods applied follow the OECD guidelines.

Controlled foreign company (CFC) rules

Under the Taxation of Shareholders in Controlled Foreign Companies Act (Väliyhteisölaki), Finnish-resident persons (who may be individuals or companies) who own at least 25% of the shares or are entitled to at least 25% of the return on the assets of a foreign company (CFC) controlled by Finnish residents and itself resident in a country where the CFC's effective tax on its income is less than three-fifths (60%) of what it would be in Finland, (i.e. 12% in 2015) have attributed to them for Finnish tax purposes the appropriate share of the CFC's income.

Other significant anti-avoidance rules

Certain articles of the Assessment Procedures Act can be used as a general basis for measures and decisions in cases when avoidance of taxes is considered, where there is e.g. a hidden profit distribution or the substance of a transaction differs greatly from its form.

Tax rates

The rate of corporate income tax in 2016 is 20%.

Returns, assessment and payment

Limited companies, cooperatives and branches of foreign traders must file their corporate income tax returns within four months of the end of their accounting period. Together with the return, companies must file financial statements, an audit report, extracts from the minutes of the shareholders' meetings and certain extracts from the business records.

Corporate income tax is assessed by the tax authorities based on the tax return submitted by the company. The tax office may, for the purposes of the final assessment, deviate from the return filed by the taxpayer without giving prior notice. However, if the deviation is significant, the taxpayer must be given a hearing. The taxpayer has the right to present its case if the tax return is found to be inaccurate and the assessment must be made on the basis of estimated income.

Corporate income tax is paid first in the form of advance payments pre-assessed by the tax office, as voluntary complementary advance payments and finally in settlement of any remaining tax still owed as shown on the final tax assessment. The pre-assessment is made on the basis of the taxpayer's income in the latest ordinary assessment at the tax rates for the current tax year. The amount assessed is collected monthly in the case of corporate bodies, unless the total amount of tax due is no more than EUR 1700.

If the taxpayer is dissatisfied with its pre-assessment, it may apply to the tax office for a new assessment Prepayments withheld and assessed are credited against the taxpayer's final tax and only the difference remains to be paid after the final tax assessment is issued. The balance remaining is paid in two instalments, in December of the assessment year and in the following February. Interest is accrued on the residual tax. If the prepayments exceed the final taxes assessed, the excess amount and interest on it is refunded to the taxpayer. If the taxpayer estimates that its pre-assessed taxes are less than the final income tax payable, it can make voluntary complementary advance payments. If complementary payments are made no later than the deadline date for filing the return, an interest charge is avoided.

If a company fails to make advance payments, the tax office can take measures such as closing the company's prepayment registration, which normally causes difficulties in business. Failing to make tax payments or making late payments will also incur interest. Sometimes taxpayers may make payment arrangements with the tax office, if they are unable to pay tax on time. The final consequence of neglecting tax payments might be a bankruptcy of the taxpayer initiated by the tax authorities.

Value added tax

As a Member State of the European Union, Finland has a value-added tax (VAT) régime similar to other VAT régimes throughout the European Union. In general VAT is due on supplies of goods and services, the import of goods from outside the European Union and the 'intra-EU acquisitions' of goods from other EU Member States. If these transactions take place in Finland, they are in principle subject to Finnish VAT.

A precondition for the liability to tax is that the supply of goods and services take place in the course of business. The main defining criterion for judging that a supply is made in the course of business is that the activity is carried out for the purpose of gaining profit, is oriented towards a largely unrestricted body of customers, is continuous and carried out autonomously, and involves an element of business risk.

A supply of goods takes place when the owner of tangible property transfers the right to dispose of that property as owner. Electric current, gas, heat, refrigeration and similar commodities are also deemed to be tangible property. The supply of services is a supply that is not a supply of goods. Services related to goods, the leasing of goods, restaurant services, the transfer of different rights and the obligation to refrain from resuming a business activity are treated as supplies of services.

VAT is levied on an individual or an entity making a supply of goods or services in Finland (the supplier), but there are some main exceptions to this rule which shift the burden to the customer (the reverse charge). Generally, the reverse charge is applied in the following cases:

- ✓ *purchases of goods from foreign taxable persons not established in Finland*
- ✓ *the supply of gold*
- ✓ *the supply of construction services to an entity that is also engaged in the construction business*

There are more specific rules on each of these exceptions.

Moreover, VAT is levied on entities on imports, on intra-EU acquisitions of goods and on removals of goods from warehousing arrangements.

VAT is also imposed on goods or services that have been purchased for a purpose that has entitled the taxable person to make a deduction or which have been produced in connection with a taxable person's taxable activities if the goods or services are then used for private consumption, disposed of free of charge, or used for some other purpose that does not entitle the taxable person to a deduction. There are more detailed rules on this, especially in the field of construction and services related to immovable property.

VAT is charged at each and every stage of the production chain and in the distribution of goods and services. Businesses charge one another VAT for goods and/or services provided. The taxable person that charges the VAT is required to pay the VAT amount over to the tax authorities. If a taxable person is charged VAT by another taxable person, it is entitled to deduct that amount ('input tax') from VAT due on its part ('output tax'). By doing so, the system ensures that the end user is effectively responsible for paying the VAT. Foreign businesses that perform taxed services in Finland are in principle also liable to pay VAT. Those businesses, too, will be required to pay the VAT due in Finland and will therefore also be able to claim the VAT invoiced to them by taxable persons in Finland.

VAT registration

In general, all taxable persons must register for VAT, and should do so before they begin to supply goods or services. However, very small businesses do not need to register until their turnover exceeds EUR 8500 (by reference to the VAT-exclusive turnover in the previous 12 months). There is a sliding scale of relief where turnover does exceed EUR 8500 but not EUR 22 500. These thresholds apply only in the case of Finnish taxable persons. Taxable persons not established in Finland who make taxable supplies there must register no matter what the value of their transaction(s).

The distance-selling threshold (for taxable persons selling to private customers in Finland) is EUR 35 000. The registration threshold for non-taxable persons making intra-EU acquisitions in Finland is EUR 10 000.

Taxable transactions

The following transactions are taxable:

- ✓ The supply of goods and services in Finland by a taxable person in the course of a business
- ✓ The intra-EU acquisition of goods in Finland by a taxable person in the course of a business or by a legal entity that is not a taxable person
- ✓ The intra-EU acquisition in Finland of new means of transport by any person
- ✓ The import of goods from outside the European Union into Finland
- ✓ The supply of electronic services (e-commerce) to a taxable person established in Finland by a taxable person established outside Finland
- ✓ The supply of electronic services (e-commerce) to an individual or entity that is not a taxable person from a country outside the European Union and
- ✓ The supply of services by a taxable person established in another EU Member State to a taxable person established in Finland or a legal entity that is not a taxable person

Exemptions

Not all goods and services supplied in Finland are subject to VAT. Among exempt supplies are the following:

- ✓ Hospital and medical care undertaken by publicly administered hospitals and recognised private hospitals or other similar institutions, and the provision of medical care in the exercise of the medical professions
- ✓ Social welfare services
- ✓ Educational services provided in accordance with the law or which are subsidised from State funds in accordance with the law
- ✓ Financial services and transactions concerning securities (excluding consultancy and safety-deposit services)
- ✓ Insurance services and services performed by insurance brokers and insurance agents
- ✓ Transactions concerning bank notes and coins used as legal tender (excluding collectors' items)
- ✓ Lotteries and games of chance
- ✓ The services of performing artistes, the sale of performances intended to be sold to arrangers and the transfer of copyright to literary and artistic works
- ✓ Real property, including building land (a lessor of real property may, however, opt for taxation when renting premises to persons liable to VAT)
- ✓ Certain transactions carried out by blind persons
- ✓ Interpretation services for deaf persons
- ✓ Cemetery services rendered by a public cemetery
- ✓ Uncultivated berries and mushrooms sold by the person who picked them
- ✓ General postal services

Companies that make solely exempt supplies are not entitled to charge VAT on those supplies. In addition, they are also not entitled to claim the VAT charged to them for goods and services. Companies that make both taxable and exempt supplies are able to reclaim VAT on the supplies made to them and directly applied in making taxable supplies and on a fraction of the VAT incurred on supplies used to make both taxable and exempt supplies.

Exports and imports

The general rule for exports of goods to destinations outside the European Union is that they are ‘zero-rated’, i.e. there is no VAT charged on the export (or ancillary services) but the exporter may still deduct input VAT incurred in order to make the export. The export of electronic services to customers outside the European Union is zero-rated.

By contrast, imports of goods into the territory of the European Union are normally subject to VAT, even where the importer is a private person.

Tax rates

Finland has three rates of VAT. The standard rate is 24% and there are two reduced rates: 14% and 10%. Everything that is not taxable at a reduced rate or is not exempt or zero-rated is taxable at the standard rate.

Transactions subject to the 14% reduced rate include:

- ✓ Foodstuffs (excluding live animals and drinking water)
- ✓ Animal feed
- ✓ Restaurant meals

Transactions subject to the 10% reduced rate include:

- ✓ Books
- ✓ Subscriptions to magazines and newspapers (if sold loose, these are standard-rated)
- ✓ Medicines and certain pharmaceutical products
- ✓ Passenger transport services
- ✓ Admission to cultural, entertainment and sporting events
- ✓ Hotel and similar accommodation

Zero rate

Other than the export of goods and services ancillary to exports, the zero rate also applies to, inter alia:

- ✓ Supplies of gold to the central bank
- ✓ The sale, hire, charter, repair and maintenance of working vessels (over 10m in length) and excluding those used for leisure or sport
- ✓ Supplies of aircraft and their spare parts to customers operating international commercial routes)

VAT returns

All taxable persons must file periodic VAT returns. The standard return period is one calendar month, but primary producers, artists and small businesses whose annual turnover does not exceed EUR 50 000 may opt to make quarterly returns. Furthermore, businesses with an annual turnover not exceeding EUR 25 000 may make annual returns.

Returns must be filed no later than the 12th day (7th day if in paper form) of the second month following the end of the return period and must be accompanied by payment of the VAT due as shown on the return. If the return shows an excess of input VAT over output VAT, the tax authorities will make a refund of the excess.

Taxable persons making intra-EU supplies must also file statements of those supplies, listing the customer's VAT number and the value of the supplies.

All returns and statements may be filed electronically or in paper form.

Personal taxes

Finnish resident individuals are subject to tax in respect of their worldwide income. Non-residents are taxed on their income derived from Finland.

An expatriate regime applies for employment in Finland under which qualifying specialists and executives may apply for a flat rate of income tax of 35% to apply to income from duties carried out in Finland, instead of the ordinary progressive tax rates, and to become exempt from the health insurance premium.

The tax year for individuals is the calendar year. Married persons are taxed separately both on earned income and investment income. Interest and insurance deductions are dependent, in certain circumstances, on the marital status of the taxpayer. In general, married persons will have their own deductions.

Individuals are entitled to deduct from their investment income and earned income all expenses incurred in acquiring and maintaining such income. Individuals have a right to deduct interest expenses from investment income.

Interest expenses are deductible if the debt is related to the acquisition of taxable income.

• In 2016, 50% of interest on a loan used to purchase the individual’s permanent home is deductible.

• An individual is deemed to be a resident in Finland if he has his main place of abode in Finland or if he is continuously present in Finland for a period of more than six months. A presence is deemed continuous irrespective of temporary absence. Finnish nationals are, in addition, subject to the three-year rule. According to this rule, a Finnish national is considered to remain resident in Finland for three years after the end of the year in which he left the country, unless he shows that he has not maintained essential ties in Finland during the tax years concerned. However, under the terms of tax treaties, the three-year rule may be negated if the individual is deemed resident in another country.

An individual is taxed separately on earned income and on investment income. Earned income is subject to national income tax, municipal income tax and church tax. Earned income includes salaries, wages and benefits in kind. Investment income includes dividend income, capital gains, certain interest income and income from rental activities.

Capital income up to EUR 30,000 is taxed at 30% whereas amounts over EUR 30,000 are taxed at 34%.

Finland imposes both inheritance and gift tax.

Wages and salaries paid by an employer are subject to a withholding tax. The amount withheld is based on the amount of wages or salary as well as on the individual circumstances of the employee.

Earned gross income is taxed by a progressive state tax (tax brackets 6.5% – 31.75%) and proportional communal taxes paid to municipalities (16.5% – 22.5%, average 19.17%) and parishes (1.00% – 2.00%, average 1.34%). Permanent residents of Finland have also to pay health insurance contributions, medical care fee (1.19%) and daily allowance contribution (0.82%). There is an earned income tax credit for local taxes, making them slightly progressive despite their fixed rate.

The tax-like mandatory insurance fees are withheld from the wages. They are fully credited from the income taxes. The employee's pension and unemployment insurance fees have rates varying according to the person's age but they are usually at 4.7% and 0.6%, respectively. Above rates are as of year 2016.

The Finnish state income tax brackets for the year 2016.

Taxable earned income (euros)	Basic tax amount	Rate within brackets
16,700–25,000	**8**	**6.5%**
25,000–40,800	**547.50**	**17.5%**
40,800–72,300	**3,312.50**	**21.5%**
72,200–	**10,085**	**31.75%**

SCANDICORP
YOUR LINK TO NORDIC BUSINESS

About Scandicorp

Scandicorp is a Scandinavian corporate services provider specializing in corporate solutions and company management services. We assist international and domestic clients to structure and administer corporate entities in Scandinavia and throughout Europe. More specifically, Scandicorp assists clients to set up and manage efficient Nordic corporate structures according to individual requirements, while always remaining compliant. Scandicorp has a fresh and transparent approach towards its business relationships and aims to be a trusted partner for individuals and companies looking to start or grow a business in the Nordic countries.

Disclaimer: Whilst every effort has been made to ensure that the details contained herein are correct and reflect the conditions at the time of publishing (October 2016), it does not constitute legal or professional advice. SCANDICORP does not accept responsibility, legal or otherwise, for any errors or omissions.

Till Sahlgren

Business Development Director

+46 708 627 238

+358 40 5049666

till.sahlgren@scandicorp.com

Scandicorp

SE: +46 8 122 041 45

FI: +358 9 42452121

NO: +47 21 05 25 40

scandicorp.com | info@scandicorp.com

Facebook | Twitter | LinkedIn