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Finland

Capital city:
Helsinki

Language:
Finnish

GDP/capita 2019:
USD 48,783

Telephone code:
+348

Area:
338,145 km²

Political system:
Parliamentary republic

Currency:
Euros

National day:
6 December

Population:
5,522,015

ISO Code:
FIN

Finland

1. Business taxation

1.1 Taxes on Persons in Business

The possible business forms include a corproate limited company, general partnership, limited partnership, cooperative association and private trader. Business tax is paid on annual taxable income minus tax-deductible expenses and losses. A self-employed individual's or a partnership's business profits must first be divided into capital income and earned income. In addition to the income tax, businesses are taxed on real estate income. Other taxes consist of an asset's transfer tax and a withholding tax. Employers are also required to make a social security contribution.

A limited company which is the most popular legal form, is designed for private businesses with clear and stable shareholder structure. It must have at least one shareholder, and at minimum one regular member and one deputy member in the board of directors. However, there is no need to appoint a managing director. Also, there is no requirement for minimum share capital.

A general partnership is created when two or more partners, that have equal status in all the company's operations and are personally responsible for company decisions, liabilities and debts, sign a partnership agreement. A limited partnership differs from a general one so that in addition to one or more accountable partners there is at least one "sleeping" partner who acts as an investor.

A cooperative association is owned by its members. It can be created by one or more members. Each member has one vote in the cooperative association's meetings. The members are liable for the association's obligations based on their investments in share capital.

The simplest way to start in business is to operate as a private trader. Decision-making and responsibility in the company belong with the entrepreneur, along with assets of the business are those of the entrepreneur. Taxes are paid as advance taxes over the company's result for the entire financial year.

Once the company is formed, it can register in the Tax Authority's registers: VAT register, employer register and prepayment register. These registrations are needed when sales exceed EUR 15,000 and there are more than two permanent employees (or six short-term employees). Registering in the prepayment register is advised, or else buyers of the company's services must withhold 13% of the invoice amount.

1.2 Residence and non-residence

A permanent establishment affects tax obligations in Finland. A permanent establishment may need to be formed for the foreign company's operation in Finland. In this case, the business that the foreign company has in Finland is subject to Finnish income tax. Due to the amendment to the act on income tax that entered into force on 1 January 2021, a foreign organisation whose place of effective management is located in Finland is considered a resident taxpayer in Finland. The place of effective management is the place where the organisation's board of directors or other decision-making body makes the highest-level decisions on daily management. Resident taxpayers must pay tax to Finland on income they receive both from Finland and from abroad.

1.3 Tax year and filing

The tax period for corporate income taxes covers the same period as the company's fiscal year. Typically, the fiscal year is a calendar year, but it can vary. The deadline for filing income taxes is 4 months after the fiscal year ends. Companies can pay monthly corporate tax prepayments, which is based on the company's taxable income for the previous period. In the case of a start-up, the tax is determined based on estimates for the company's turnover and taxable income for the first financial year.

1.4 Types of income

Almost all income from business activities is taxable income. Taxable income includes e.g. income from the sale of goods and services and income from the sale and rental of company assets. An unrealized increase in the value of an asset is not taxable income until the asset is sold.

1.5 Group income and grouping arrangements

Each company in the group is taxed as an independent taxpayer in Finland. This means that the profit of each group company is calculated and taxed separately.

1.6 Capital gains

Capital gains are treated as ordinary income, which is subject to corporate taxation.

Most of a company's expenses are usually deductible. As a general rule, a limited company may deduct from its profit expenses that arise directly from conducting business, such as cost of raw materials, salaries, insurance costs, office supplies, start-up costs and 50% of entertainment costs. Non-deductible expenses include 50% of entertainment costs, punitive tax increases and penalties for late payment of taxes, other late payment fees, expenditure on obtaining tax-free income, fines and other penalties, merger losses and impairment of fixed assets. Income taxes are not deductible, but real estate tax and YLE tax are.

1.7 Losses

Losses from previous years can be deducted from the result for the next ten tax years. The deduction of confirmed losses from previous years does not have to be claimed in the company's tax return, as the Tax Administration automatically deducts losses in taxation. Losses are deducted from the result of the source of income in which they arose.

1.8 Exemptions

There are no specific corporate tax exemptions, as the general corporate tax regime provides exemption from corporate tax for retained earnings of the company. Also, dividends received by a Finnish company are in some cases under tax exemption, except when the dividend is paid by a publicly quoted company to a non-publicly quoted company, which holds less than 10% of the distributing company, or when the dividend is distributed by a company outside the EEA.

1.9 Rates

In Finland the limited companies pay for income tax on their profits. The amount of income tax is 20% since 2014, when the percentage decreased from 24.5% to 20%.

The income of a private trader, general partnership, limited partnership and an agricultural entrepreneur is taxed partly as capital income and partly as earned income. The entrepreneur pays 30% to 34% tax on capital income and income tax is progressive. In addition to income tax, municipal tax (and church tax) is to be paid.

Companies and organisations need to pay for public service broadcasting tax (Yleisradio or YLE tax) which is based on taxable income for a fiscal year. Tax amounts to EUR 140 for taxable income of at least EUR 50,000 and 0.35% is added when the taxable income exceeds EUR 50,000. However, the maximum annual YLE tax is EUR 3,000. It is also deductible in the taxation of income of a company.

1.10 Double tax relief

Finnish companies must pay tax in Finland on their income from both Finnish and foreign sources. The Finnish Tax Administration eliminates any double taxation when assessing taxes in Finland. Double taxation is usually eliminated by means of the credit method. The credit method means that foreign-sourced income is taxed in Finland, but the tax paid abroad is deducted, i.e. credit is granted for it. The exemption method is only used if required by tax treaty.

2. Personal income taxation

2.1 Taxes on income

In Finland tax residents are taxed in respect of their worldwide income. Earned income is taxed at progressive tax rates for national tax purposes and at a flat tax rate for municipal tax (ranging from 17 to 23.5 % depending on location), and church tax and social security. Taxable income includes e.g. wages and salaries, pensions and benefits. Tax rates are confirmed yearly.

Non-residents are taxed in respect of listed taxable income derived from Finnish sources. Usually non-residents are taxed with a fixed tax at source rate 35% (standard deduction from gross income before taxes EUR 510/month or EUR 17/day if mentioned in employee's tax card).

In some cases, non-residents can also apply for progressive taxation (e.g. non-residents living in the European Economic Area (EEA) or in countries with which Finland has an agreement on execution assistance and information exchange in tax matters).

Foreign key persons, who meet certain criteria, can apply for 32% tax at source taxation, even if they stay in Finland for more than 6 months.

2.2 Residence and non-residence

An individual is considered as a resident taxpayer thus having a tax liability on worldwide income, if the individual is living in Finland or if the individual stays in Finland for at least 6 months during 12 consecutive calendar months. Other individuals are considered as non-residents.

Tax residency is not determined by tax treaties, but instead the authorities are doing the conclusion based on the national Income Tax Act.

2.3 Tax year and filing

Tax year is a calendar year.

Payroll taxes on employment income are withheld by the employer and remitted to the tax authorities usually on a monthly basis. In case the employer is e.g. a non-resident employer that does not have a permanent establishment in Finland and is not doing the withholding of the taxes from the salary, the employee must contact a local tax office to get instructions for tax-prepayments.

The non-resident individual is required to submit a Finnish tax return in respect of such Finnish source taxable income, which has not been subject to withholding tax at source or if the individual has requested progressive taxation.

Resident taxpayers and nonresidents who have applied for progressive taxation, receive a pre-completed tax return from the tax authorities a few months after the tax year is finished (2021 at the latest 23.4.). It includes pre-entered details of wages and salaries, pensions, dividends and other income. If the given information is correct, the individual does not need to return the form. If there are corrections to be made, the individual must submit the corrections by the date mentioned in the form. If necessary, the individual can request the tax return form tax authorities.

Back taxes or tax refunds are paid according to the tax authorities' decision between July 1 and December 3 of each year.

2.4 Types of income

Taxable income is divided into capital income and earned income.

Capital income consists of income generated by property and assets, including rental income, gains from selling an asset, dividend income, certain interest income, proceeds from a life insurance contract, and the share of profits of an investment fund. It also includes the capital-income portion of forestry, capital-income portion of business income and income of a partner in a consortium.

Capital income is taxed with fixed rates: Income up to EUR 30,000 with tax rate 30% and income over EUR 30,000 with tax rate 34%.

Earned income includes e.g. wages or salary (including fringe benefits and other taxable benefits), pension income and taxable social benefits, such as unemployment and parental allowances.

Earned income is taxed progressively: the more income an individual receives, the higher the tax rate is. There are also certain deductions done from the total gross income before the final taxation (such as employee union and unemployment fund fees, mandatory pension insurance contributions etc.). The taxpayer can also claim certain deductions to reduce the total amount of payable taxes. These deductions include e.g. travel expenses, tax credit for household expenses and expenses for production of income (e.g. workspace, tools and professional literature).

2.5 Capital gains

Capital gains from a sold property or asset are subject to capital income tax for 30% up to EUR 30,000 and 34% tax rate on the excess. There are certain reliefs to the taxation: a gain from the sale of one's home is tax exempt in case the house or apartment has been the individual's permanent home for at least two years. Additionally, capital gains are tax exempt in case the total amount of transfers does not exceed EUR 1,000 during a tax year.

2.6 Losses

Deductions can be claimed for the expenses associated with the production of capital income. The income type for such deduction must be the same as the type of income where the loss occurred. This means that a loss associated with earned income cannot be deducted from capital income and vice versa. Also, the losses must be claimed against the same source of income as where they arise, meaning a loss incurred e.g. in a business operation cannot be deducted from agricultural operation's profits. In case of making a loss when selling or otherwise transferring property, a deduction against any type of capital income can be claimed. Capital losses that have arisen before 2016 are deducted only from capital gains, not from all capital income. Losses that have been allowed for carryover can be deducted later.

2.7 Exemptions

There are some exemptions in respect to personal income taxation. A few of the most common ones are the tax-exempt travel allowances for business travel and tax-exempt benefits provided by the employer.

Tax exempt travel allowances are defined yearly in the Official Decision of the Tax Administration on Allowances for Travel Expenses. These include kilometer allowances, meal allowances and per diems. Allowances can be paid tax free only if the travel meets the given criteria.

Tax exempt benefits include e.g. collective benefits provided by the employer such as a health care plan exceeding the mandatory plan, bicycle benefit, travel tickets for commuting, vouchers for sports and cultural benefit providers. The employer can also arrange for example an internet connection for work purposes to the employees' home. All of the benefits mentioned must meet certain criteria to be considered as tax exempt benefits.

2.8 Social security

In Finland both the employer and employee are paying social security contributions. The rates are confirmed yearly. Social security payments are counted from gross wages for insurance purposes.

The mandatory social insurance contributions are health insurance contribution, earnings-related pension insurance contribution, unemployment insurance contribution, occupational accident and disease insurance contribution and group life insurance contribution.

In 2021 employer's social security contributions are:

Employers' health insurance contribution (employees aged 16-67 years)	1,53%
Earnings-related pension insurance contribution, average rate (TyEL) (employees aged 17-67 years)	16,95%
Unemployment insurance contribution (employees aged 17-64 years)	
For maximum salary sum of EUR 2,169,000 a year	0,50%
For salary sum exceeding EUR 2,169,000 a year	1,90%
Occupational accident and disease insurance contribution, average percent 2021*	0,70%
Group life insurance contribution, average percent 2021**	0,06%
Average employers' percentage, when gross salary sum is max EUR 2,169,000	19,74%

In 2021 the employee's social security contributions are:

Earnings-related pension insurance contribution, average rate (TyEL)	
Employees aged 17-52 or 63-67 years	7,15%
Employees aged 53-62 years	8,65%
Unemployment insurance contribution (employees aged 17-64 years)	1,40%

Employee's health insurance contribution is included in employee's withholding tax rate.

*The accident insurance contribution varies by line of business and by company
**Paid if it is agreed in the collective labor agreement. The contribution varies by line of business and by company.

2.9 Expatriates

There are no special tax rules for expatriates.
However, there are certain rules for taxation of travel and moving compensations which can also concern expatriates. Additionally, there are some national rules and regulations in different tax treaties concerning special groups like previously mentioned foreign key employees, leased employees, teachers and scientific researchers, students and trainees (interns), performing artists, international traffic, frontier workers, diplomats and people working for certain international organizations and members of governing bodies of corporate entities.

2.10 Options

According to the Income Tax Act, the benefit received from the employment option is taxable earned income. The benefit from the employment option is treated as a fringe benefit.

2.11 Pensions

National and guarantee pensions are taxable earnings in Finland. The taxation of statutory pensions is more lenient than the taxation of wages of the same amount due to the special tax deductions of pension income. While drawing an old-age pension it is possible to continue working, and the wages will not affect pension. However, taxes on earnings still need to be paid.

3. Inheritance and gift tax

There are inheritance and gift taxes in Finland. Inheritance tax is paid for amounts exceeding EUR 20,000 and the percentage is progressive. Certain deductions can be made, in case of minors or spouses. Close relatives aren’t taxes as strictly than in the case of no family connection.

Gift tax needs to be paid when an individual receives a gift (or money) worth EUR 5,000 or more, or when the combined value of multiple gifts from the same party exceeds EUR 5,000 during a three-year period. The tax percentage is progressive.

4. Wealth Tax

Finland has abolished the net wealth tax in 2006.

5. Value Added Tax

5.1 Rates

Value-added tax is paid on the sales of goods and services. The standard VAT rate is 24% applied for most goods and services. There are two reduced VAT rates, 14% for groceries, feed and restaurant services, and 10% for books and newspapers, pharmaceutical products, physical exercise services, culture events and tickets, passenger transport and accommodation services. Services related to social welfare, healthcare services, and medical services are not subject to VAT. Also, VAT exempted operations are financial service, insurance services, copyright fees, selling real estate and offering it for rent, postal services and lottery events.

A company must register in the VAT register, file VAT returns and pay VAT when the company has a fixed establishment in Finland. VAT-registered businesses can deduct VAT paid on purchases for business activities from their VAT liability.

The general VAT registration threshold is EUR 15,000 for the accounting period (12 months), which starts 1 January 2021 or later. If the accounting period has begun during 2020, the turnover has to be less than EUR 10,000 for not to be under the obligation to register for VAT.

5.2 Distance selling to an individual located in Finland by a company located in the European Union

According to the distance selling rules, if the value of distance sales exceeds the threshold of EUR 35,000 (excluding VAT), the seller must register for VAT and pay VAT in Finland for the sales that exceed the threshold. The distance selling rules are applied only when the customers are private individuals or other non-taxable persons comparable with them.

6. Other taxes

Transfer tax

Transfer tax is imposed on transfers of real property. On most shares it is 1,6%, except 4% on real estate and buildings and 2% on shares in a housing company or a real estate company. When buying real estate, shares in a housing company or other securities or corporate stocks, the purchase must be reported by filing a transfer tax return. Transfer tax is self-assessed, self-reported and normally paid by the buyer.

Church tax

Members of the Evangelical Lutheran church and Orthodox churches pay church tax in conjunction with state and municipal income tax. The church tax goes to one's home town parish, whose tax rate determines how much church tax is paid. The church tax rate varies between parishes, but it generally falls between one and two per cent.

Real estate tax

Property tax is a tax that is paid annually based on the value of the property. Real estate tax rates are decided by the municipal council.

Excise taxation

Excise duties are levied on alcohol, tobacco products, liquid fuels and electricity. A national excise duty is levied on soft drinks and beverage containers. Excise duties are levied on products manufactured in Finland and products imported into Finland.

Solidarity Tax

There is no solidarity tax in Finland.

Trade tax

There is no trade tax in Finland.

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