Currency: Euro (EUR)
Foreign exchange control: No
Accounting principles/financial statements: Finnish GAAP/IFRS.
Financial statements must be prepared annually.

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

Corporate taxation:
Residence – A corporation is resident if it is incorporated in Finland.
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. Only 50% of entertainment expenses are tax-deductible. Complex rules govern the depreciation of assets.

Taxation of dividends – Dividends received by a Finnish resident company from another Finnish company are generally exempt from tax. Dividends received from EU and tax treaty countries also are generally tax-exempt for corporations.

Capital gains – Capital gains are generally treated as ordinary income and taxed at the standard corporate rate of 26%. 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 were 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 to be transferred. The carryback of losses is not permitted.
Rate – 26%
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 per country limitation was abolished as from 2010).
Participation exemption – Gains derived from the sale of shares are not taxable for a Finnish corporate taxpayer when the sold shares belong to 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 1 year and the alienation does not take place more than 1 year after the seller company’s ownership in the entity falls below the 10% threshold;
- The alienated shares are not shares in a real estate company or limited liability company whose business activities consists of principally of governing or owning real estate; and
- The alienated shares are of a Finnish company or a foreign company listed in the EC parent-subsidiary directive or a company resident in a treaty country, provided the treaty applies to dividends distributed by the company.

Holding company regime – See under “Participation exemption”.
Incentives – No

Withholding tax:

Dividends – Dividends paid to another Finnish company are exempt. Dividends paid to a nonresident company are subject to a 28% withholding tax unless the rate is reduced under a tax treaty or exempt under the EC parent-subsidiary directive. If paid to an EEA resident shareholder, domestic nondiscrimination based provisions may lower the withholding tax rate to a level corresponding to similar domestic distributions.
Interest – Finland does not levy withholding tax on interest.
Royalties – Royalty payments made to a nonresident are subject to a 28% withholding tax unless the rate is reduced under a tax treaty or exempt under the EC interest and royalties directive.
Branch remittance tax – No

Other taxes on corporations:
Capital duty – No
Payroll tax – No
Real property tax – The municipal authorities levy tax between 0.6% and 3% on real property. The tax is deductible for corporate income tax purposes.
Social security – The employer’s social security charge for year 2011 is 2.12% (no cap) on gross salaries and wages (GSW). The average employer pension insurance contribution is 17.10% of GSW. Unemployment insurance contributions range from 0.80% to 3.20% of GSW; group life insurance premiums average 0.07% of GSW
and accident insurance premiums average 1.0% of GSW.

**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 estate and certain leasing rights in Finnish real estate. Some exemptions are available.

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

**Anti-avoidance rules:**

**Transfer pricing** – 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 for tax years starting on or after 1 January 2007.

**Thin capitalisation** – Finland does not have specific thin capitalisation rules. However, interest deductions may be disallowed if the capital structure is not commercially feasible.

**Controlled foreign companies** – A foreign entity can be deemed a CFC if the entity is controlled directly or indirectly by Finnish residents. A nonresident entity is deemed to be controlled by Finnish residents if one or more residents jointly own directly or indirectly at least 50% of the capital of the foreign entity or its total voting power, or if one or more residents are entitled to at least 50% of the yield on the entity’s assets. The net income of a CFC is taxable income for the Finnish shareholder regardless of whether the net income is distributed to the shareholder, if:

- The shareholder owns at least 25% of the capital of the nonresident entity or is entitled to at least 25% of the yield of the entity’s assets; and
- The effective rate of tax in the entity’s state of residence is less than 3/5 of the Finnish corporate income tax rate, i.e. 15.6% (3/5 x 26%).

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

**Disclosure requirements** – No

**Administration and compliance:**

**Tax year** – The financial year is used. If 2 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 Finnish 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 return within 4 months of its financial year end. Advance corporate tax is paid monthly, i.e. up to 12 instalments.

**Penalties** – Penalties apply for failure to file, late filing or filing of 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 the taxpayer.

**Personal taxation:**

**Basis** – Finnish residents are taxed on their worldwide income. Nonresidents are taxed only on Finnish-source income and gains from immovable property in Finland.

**Residence** – An individual is resident if he/she has a principal place of abode in Finland or he/she spends more than 6 months in Finland in any consecutive period. A temporary absence (up to 2 months) does not break the period.

**Filing status** – Each taxpayer is provided with a pre-filled in tax return by the tax authorities; joint assessments are not possible.

**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, and potential church tax rates are 21.50% to 2. Special 35% rate applies to qualifying expatriates.

Income from capital is taxed at a flat rate of 28%.

**Other taxes on individuals:**

**Capital duty** – No

**Stamp duty** – No

**Capital acquisitions tax** – No

**Real property tax** – A general rate of 0.12%-1.35% is levied on the tax value of real property. Rates vary by municipality and special rates apply, e.g. for second homes.

**Inheritance/estate tax** – Inheritance tax is levied at progressive rates up to 32%.

**Net wealth/net worth tax** – No

**Social security** – The employer is required to withhold 4.7% of an employee’s gross salary for pension insurance and unemployment insurance contributions (6.0% for employees aged 53 and over). A health insurance premium of 2.01% also is payable by the employee, which is included in the individual’s personal tax withholding percentage.

**Administration and compliance:**

**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, the return must be amended within a specific period. The tax return filing due dates are 10 May and 17 May for tax residents and 17 May for nonresidents (although nonresidents usually are not required to file a 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) at amounts ranging from EUR 150 up to 30% of the
income not declared. The penalties are at the discretion of the tax authorities. Interest of 8% applies for 2011.

Value added tax:

**Taxable transactions** – VAT is levied on the sale of goods and the provision of services.

**Rates** – The standard rate is 23%, with reduced rates of 13%, 9% and 0% applying in certain cases.

**Registration** – If the turnover of the business activities in a certain financial year does not exceed EUR 8,500, no VAT registration is required and no VAT is levied. If the financial year is not 12 months, turnover of the financial year is proportioned for 12 months. This threshold does not apply to foreign entrepreneurs that do not have a fixed establishment in Finland. If the turnover of the taxable person in a particular financial year is less than EUR 22,500, the taxpayer may apply for a full/partial refund of output VAT accounted for during the relevant accounting year. The Finnish purchaser is generally liable for VAT (reverse charge mechanism) 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. Voluntary VAT registration of the foreign seller is normally possible.

**Filing and payment** – VAT returns and payments are generally due on a monthly basis.

According to the tax reporting and payment scheme (tax account), every tax liable person has a tax account through which the returns and payments will be administered. VAT returns, in principle, should be submitted electronically. The due date for filing VAT returns electronically and making the payment is the 12th day of the second month following the VAT period in question. Filing paper VAT returns is still possible, but the due date for the return is the 7th day of the second month following the relevant VAT period. Penalties apply for late reporting or payment.

The scope of the reverse charge will be extended to sales of construction services as from 1 April 2011. In certain cases, the purchaser of construction services, rather than the supplier will be required to account for and report VAT in Finland.

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

**Tax treaties:** Finland has concluded approximately 70 tax treaties.

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

**International organisations:** EU, EFTA, OECD, WTO

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