

Tax handbook for startups and international investors

Don't worry about tricky tax issues – Tax Finland will help you succeed!

- The Finnish Tax Administration offers individual, real-time expert support for predicting and solving the tax matters of growth companies: www.tax.fi/startups
- Yes, it's free of charge
- As a first aid to prevent your emerging tax headache this handbook briefly explains taxation basics in Finland. If something is unclear, don't hesitate to contact our guidance services.
- We also recommend that you use a professional accountant or accounting firm for managing your tax affairs

Basic information

- Standards for accounting and financial statements: Finnish Accounting Standards (FAS), International Financial Reporting Standards (IFRS; mandatory for listed companies)
- Corporate forms: limited liability company (most common), general partnership, limited partnership, cooperative, sole trader, branch of foreign company
- Basic information for establishing a company: www.uusyrityskeskus.fi
- The Business Information System for forms: www.ytj.fi
- Tax matters, e.g. filing returns to the Tax Administration – MyTax: www.tax.fi/mytax
- Services for global growth and innovations funding: www.businessfinland.fi
- Your entry to working and settling in Helsinki area: www.ihhelsinki.fi
- Information about taxation and the Tax Administration, including service numbers and chat: www.tax.fi
- Always check www.tax.fi or startups@vero.fi to get the latest information about taxation

Corporate taxation

Income tax rate for limited liability companies and other corporate entities

20 %

Tax liability

Residents are taxed on worldwide income. A company is resident if it is registered or established under Finnish Law.

A foreign company's tax liability in Finland

Foreign companies are liable to pay income tax in Finland if they have a permanent establishment in Finland (general rule). For example, a branch or a place of management can form a permanent establishment in income taxation.

Taxable income

Corporate tax is paid on the company's profit. The profit is what remains after deductible expenses are deducted from the company's income that is subject to

tax. As a main rule deductible expenses are expenses that are incurred for business purposes, such as purchases, R&D expenses, depreciations, wages and financing expenses (the deductibility of intra-group interests is limited). When taxable income exceeds deductible expenses, the profit is subject for income tax. If deductible expenses exceed taxable income, the loss will be carried forward in future years.

Losses in taxation

Tax losses are carried forward and offset against taxable income within the next 10 tax years.

Group contribution within group companies

Group companies may even out their taxable profits and losses under the preconditions set out by law (group contribution).

Tax returns of limited liability companies

A limited liability company must file a tax return within 4 months of the end of the last calendar month of its accounting period. The tax return can be filed electronically, which is easy to do in the MyTax online service.

Corporate taxation

Dividends

Dividends received by a Finnish company are, with certain exceptions, exempt from tax when the company paying the dividend is a resident in Finland or in EU/EEA country. Shareholders of a limited liability company are not taxed until they start withdrawing income from the limited liability company in the form of wages or dividends, for example. Distribution of dividends does not cause tax consequences in the distributing company (withholding tax requirements may arise however).

Participation exemption

Capital gains derived from the sale of shares are tax free if these shares that are sold belong to fixed assets and the seller company owns at least 10 % of the share capital of the entity and the shares have been held for at least one year. However this does not apply to real estate companies, housing companies or companies whose main function is to own real estates. If the capital gain from the sale of shares is tax free, correspondingly the capital loss from the sale is non-deductible. A fixed asset is an item that is not purchased with the intent of immediate resale, but rather for productive use within the entity.

Income from abroad

Foreign-sourced income may be taxable in the source country as well as in Finland, which may lead to double taxation situation. The Finnish Tax Administration, when assessing Finnish corporate income tax, eliminates double taxation by using mainly a credit method. In this case foreign-sourced income is taxed in Finland, but tax paid abroad is deducted – i.e. credit is being granted for it. The Finnish tax laws determine the maximum available credit. Taxes that exceed the maximum credit can be used later during the five following years for any taxes payable on foreign income of the same type or source within the limits of maximum available credit.

Tax treaties

Finland has a comprehensive network of tax treaties. At present, Finland has signed income tax treaties with more than 70 countries. You can check Finland's current situation regarding tax treaties on tax.fi, in the [Tax treaties](#) guidance.

Transfer pricing

Transfer pricing is based on the arm's length principle, i.e. that intra-group business transactions must be based on the same terms as those used for transactions between unrelated companies. Intragroup transactions are, for instance, sales of goods and services, compensation for the use of immaterial rights and financing. The Finnish Tax Administration applies the OECD Guidelines for Transfer Pricing.

Value-added taxation

VAT is paid on sales of goods and services. The VAT basis is the price received from selling goods or services. The standard VAT rate is 24%. Finland has two reduced VAT rates, 14% and 10%. There are also zero-rated sales and certain goods and services are separately exempted from VAT.

VAT rate	Goods and services covered by the VAT rates (examples)
24 %	Standard
14 %	Food, restaurant and catering services
10 %	Passenger transport, books, certain services related to sporting, tickets
0 %	Sales of goods and services to other EU Member States and to outside the EU

Exempt from VAT: Social, healthcare and medical services, education services, financial and insurance services

Registration for VAT

All companies with VAT liable operations whose turnover subject to VAT exceeds €10,000 per accounting period must be registered for VAT. Companies usually enter into the VAT register when they file their start-up notification, but this can also be done later. Notification forms are available at www.ytj.fi.

Value-added taxation

Filing and paying VAT

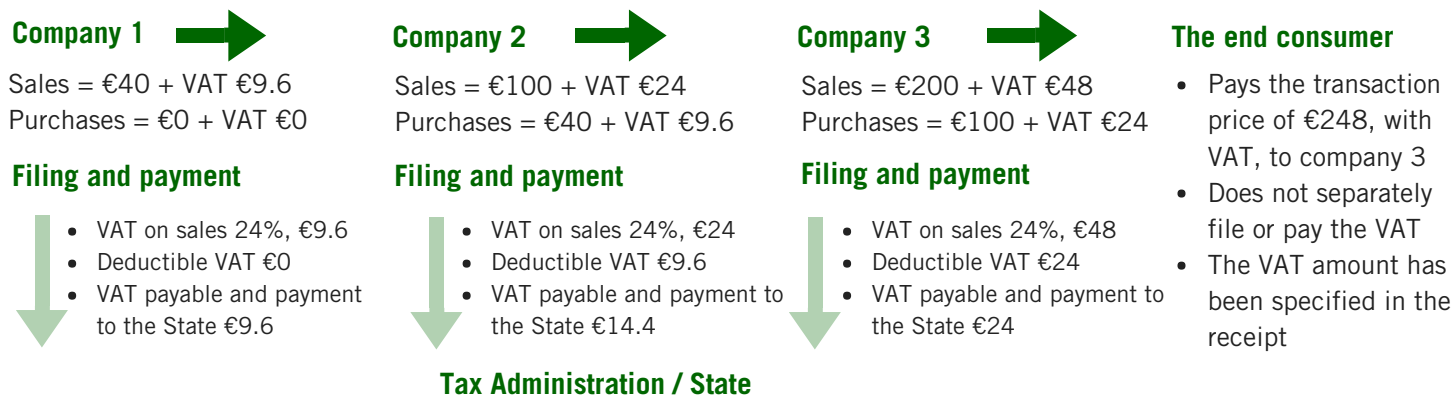
Companies that are registered for VAT must regularly file VAT returns. Returns can be filed by using MyTax e-services. VAT is monthly calculated, filed and paid by using MyTax e-services at companies' own initiative. The tax period is usually one calendar month. The general due date is the 12th of each month. If the company's turnover is no more than €100,000 per calendar year, VAT can be filed and paid in quarterly periods. If turnover is no more than €30,000, VAT can be filed and paid by calendar year.

Tax period	Turnover threshold	Tax period example	Due date for tax return and payment
Calendar month	No turnover threshold	1/2018	12 March 2018
Calendar quarter	Max. €100,000	1-3/2018	14 May 2018*
Calendar year	Max. €30,000	2017	28 February 2018

*Because 12 May is a Saturday, the return and the payment must arrive at the account of Tax Administration on the next business day

The principles of VAT

As a rule, VAT is paid by the end consumer. Companies act as the collectors and remitters of VAT by paying the VAT on their sales and by deducting VAT from their purchases relating to VAT-liable operations. The chart below demonstrates a simple VAT-taxable chain of sales and the way that filing/payment is allocated between different companies.



The VAT accrued by the State is in total €9.6 + €14.4 + €24 = €48. This is the same amount of VAT that the consumer pays when buying the product.

Being an employer

- Regular employers must enter into the Tax Administration's register of employers
- A company acting as an employer is obligated to withhold tax and social security contributions from the employee's wages salary and remits them to the Tax Administration
- The withholding is based on the tax card or tax-at-source card that the employee has provided to her/his employer
- The company files reports of employer's

- contributions and pays employer's contributions to the Tax Administration usually on monthly basis (the same procedure as for VAT). Returns can be filed in MyTax online service.
- Employers can pay tax-exempt travel expense allowances if certain conditions are met
- Other than cash benefits (including phones, cars, etc.) are considered taxable earned income for the employee
- When a Finnish employee works abroad, the domestic employer still has obligations in Finland
- When a foreign employee arrives in Finland, her/his taxpayer status must be taken into consideration

Individual taxation

Tax liability in Finland

Finnish income tax rules differentiate between two categories of taxpayers: tax residents who are fully liable to pay tax; and tax non-residents – whose liability to pay tax is limited. Individuals living in Finland permanently are residents. Individuals living in other countries are nonresidents. Furthermore, anyone who has arrived in Finland and stayed longer than 6 months will become a resident. The residents' worldwide income is subject to Finnish tax.

Tax resident

Finnish tax residents are persons who have a permanent home in Finland, or who continuously stay in Finland for more than six months.

- Tax residents are liable to pay tax to Finland on their worldwide income, i.e. income they receive both from Finland and from abroad. This can be limited by a tax treaty, if the person is a tax resident also in the other country
- Salary income (including wages): Progressive taxation consisting of state income tax, municipal income tax, possible church tax and health insurance contribution. The tax rate for an annual income of €50,000, for example, is 23.5% (in 2018, [tax.fi/taxcalculator](https://www.tax.fi/taxcalculator))
- Pension insurance contribution 6.35%, unemployment insurance contribution 1.90% (rates are determined yearly)
- Certain deductions can be made from earned income
- Capital income (e.g. capital gains from shares and immovable property, dividends, interest): tax rate 30/34
- Special taxpayer status for key employees arriving from abroad

Non-residents

A Person who is not considered as a resident for tax purposes, has a non-resident status in the Finnish income taxation, which means that her/his liability to pay income tax in Finland is limited:

- A non-resident pay tax on income she/he has received from Finland, provided that the Finnish taxation right is not limited by a tax treaty between Finland and the other country
- Tax rate 35% (tax-at-source deduction €510/month)
- Earned income can also be taxed progressively
- Dividend income: final tax at source 30% (tax treaties often limit this to 0-15 per cent)

Other taxes

- Transfer tax: The recipient must usually pay the transfer tax 1.6% (shares) or 4% (real estate)
- Wealth tax: Not in use in Finland
- Real estate tax: General rate of real estate tax max. 2%
- Inheritance and gift tax: Progressive tax scale

Did you know?

- Finland is the world's most stable country ([Fragile States Index 2017](#))
- Finland has the world's best administration ([The Legatum Prosperity Index 2017: Finland](#))
- Finland has the third least corruption globally ([Corruption Perceptions Index 2016](#))
- Availability of official information in Finland is top of the EU ([The State of data innovation in the EU: Freedom of information](#))
- Finland has the world's most independent judicial system ([The Global Competitiveness Report 2017–2018: Judicial independence](#))
- Finland has the world's second best protection of property rights ([The Global Competitiveness Report 2017–2018: Property Rights](#))
- Finland is the safest country in the world ([The Travel & Tourism Competitiveness Report 2017](#))
- Finnish primary education is the world's best ([The Global Competitiveness Report 2017-2018: Primary Education](#))
- The quality of Finnish higher education is third best in the world ([The Global Competitiveness Report 2017–2018: Higher education and training / Quality of education](#))
- Finland has Europe's strongest digital knowledge capital ([The Digital Economy and Society Index 2017: Finland](#))
- Finland is the world's fourth most innovative country ([The Global Competitiveness Report 2017–2018: Innovation](#))
- Finland has Europe's second best supply of online public service ([The Digital Economy and Society Index 2017: Finland](#))
- Helsinki is the world's second most attractive city for startups ([Startup Cities Index](#))