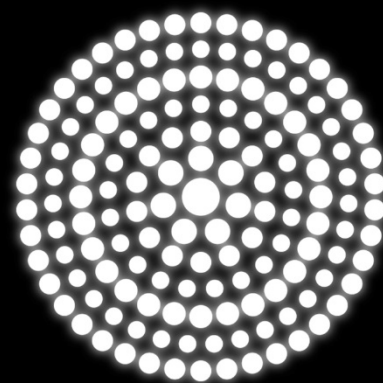


## International Tax Finland Highlights 2021

Updated January 2021



### Recent developments

For the latest tax developments relating to Finland, see [Deloitte tax@hand](#).

### 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 (LLC), general and limited partnership, and branch of a foreign corporation.

### Corporate taxation

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#### Rates

<b>Corporate income tax rate</b>	20%
<b>Branch tax rate</b>	20%
<b>Capital gains tax rate</b>	20%

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**Residence:** A company is resident if it is registered (incorporated) or otherwise established under Finnish law. As of 1 January 2021, a foreign corporation is regarded as tax resident in Finland if its place of effective management is located in Finland. The place of effective management means the place where the entity makes key decisions affecting its daily business activities.

**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. Normal business expenses may be deducted in computing taxable income. Complex rules govern the depreciation of assets.

As from tax year 2020, most LLCs will be taxed under the Business Income Tax Act (BITA) on both their business income and their non-business income; previously, income from certain activities, e.g., real estate business activities, was taxed under the Income Tax Act (ITA). As from 2020, only certain corporate entities may be taxed under the ITA instead of the BITA, e.g., mutual real estate companies (MRECs). The amended rules bring certain Finnish property holding companies and ordinary real estate companies (e.g., RECs) into the scope of the BITA, as well as simplifying the corporate income taxation of LLCs.

**Rate:** 20%

**Surtax:** There is no surtax.

**Alternative minimum tax:** There is no alternative minimum tax.

**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 under domestic law. However, tax treaties limit Finland's taxing right on dividends received from "direct investments."

**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 to be transferred. The carryback of losses is not permitted.

**Foreign tax relief:** Foreign tax paid may be credited against Finnish tax assessed on the 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 business assets 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:** There are no specific incentives for holding companies.

**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. During tax years 2020–2023, it is possible to claim double depreciation deductions on machinery and equipment, provided the machinery or equipment is new and is

put into use between 2020 and 2023. Further, during tax years 2021-2025 it is possible, under certain conditions, to claim an additional deduction for research and development in cooperation with a third-party research organization.

## 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. There must be at least a 90% direct or indirect holding between the companies, the companies' accounting periods must end on the same date, and the ownership must have lasted for the full tax year. As of 1 January 2021, new Finnish legislation allows the "final losses" of a subsidiary located in an EU/EEA member state to be deducted by a Finnish parent entity, as required by EU law.

**Filing and payment:** 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.

## Individual taxation

<b>Rates</b>		
<b>Individual income tax</b> (not including municipal income tax or church tax)		
	<b>Taxable income (EUR)</b>	<b>Tax (EUR)</b>
	0–18,600	0
	18,600–27,900	8 plus 6% of amount over 18,600
	27,900–45,900	566 plus 17.25% of amount over 27,900
	45,900–80,500	3,671 plus 21.25% of amount over 45,900
	80,500 and above	11,023.50 plus 31.25% of amount over 80,500
<b>Capital gains tax</b>		30%/34% rate

**Residence:** Individuals are resident if they have a principal place of abode in Finland or they spend 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.

**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.

**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.

**Rates:** Earned income below EUR 18,600 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 18,600. The municipal rates range from 16.50% to 23.5%, 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.

**Capital gains:** Capital gains are taxed as capital income (see under “Rates,” above).

**Deductions and allowances:** Expenses incurred in acquiring and maintaining income can be deducted from taxable income. Certain deductions apply only to 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 3,630 is granted to low-income taxpayers. A municipal earned income allowance is granted up to a maximum of EUR 1,840, 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.

**Foreign tax relief:** In general, double taxation is eliminated by either the credit method or the exemption method, based on an applicable tax treaty. Foreign tax paid may be credited against Finnish tax assessed on the same income, but the credit is limited to the amount of Finnish tax payable on the income. The credit may be carried forward for five years.

## Compliance for individuals

**Tax year:** Calendar year

**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.

**Filing and payment:** Each individual receives a pre-filled 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 4, 11, and 18 May. Individuals will receive their 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.

**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.

## Withholding tax

<b>Rates</b>				
<b>Type of payment</b>	<b>Residents</b>		<b>Nonresidents</b>	
	<b>Company</b>	<b>Individual</b>	<b>Company</b>	<b>Individual</b>
<b>Dividends</b>	0%	7.5%/25.5%	20%	30%
<b>Interest</b>	0%	30%	0%	0%
<b>Royalties</b>	0%	Varies	20%	30%
<b>Fees for technical services</b>	0%	Varies	0%	30%

**Dividends:** Dividends paid to a resident company generally are not subject to withholding tax. Dividends paid to a resident individual from an unlisted company are subject to a 7.5% withholding tax. If the dividend exceeds EUR 150,000, the withholding tax rate on the excess portion is 28%. A 25.5% withholding tax applies to dividends paid from a listed company.

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. Dividends paid to a nonresident individual are subject to a 30% withholding tax, unless the rate is reduced under a tax treaty.

**Interest:** Interest paid to a resident company generally is not subject to withholding tax. A 30% withholding tax applies to interest paid to a resident individual.

Interest payments to nonresident companies and individuals generally are exempt from tax in Finland.

**Royalties:** Royalty payments made to a resident company generally are not subject to withholding tax. The withholding tax rate on royalty payments made to a resident individual depends on the taxpayer's individual tax card. If the taxpayer does not provide a tax card to the payer, the applicable withholding tax rate is 60%.

Royalty payments made to nonresident companies 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. Royalty payments to nonresident individuals are subject to a 30% withholding tax, unless the rate is reduced under a tax treaty.

**Fees for technical services:** No withholding tax applies on fees for technical services paid to a resident or nonresident company.

The withholding tax rate on fees for technical services paid to a resident individual depends on the taxpayer's individual tax card. If the taxpayer does not provide a tax card to the payer, the applicable withholding tax rate is 60%. A 30% withholding tax applies to fees for technical services paid to a nonresident individual.

**Branch remittance tax:** There is no branch remittance tax.

## 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.

**Interest deduction limitations:** There is a general limitation on the deductibility of interest expense. Net interest expenses are deductible up to EUR 500,000. However, the threshold of EUR 500,000 is not a safe harbor. When EUR 500,000 is exceeded, net interest expenses are deductible only up to 25% of the EBITD (the taxable income of the company, plus interest expenses, tax depreciation, and net group contributions). In addition, net interest expenses paid to third parties are fully deductible up to EUR 3 million, even if the 25%-of-EBITD limit is lower. The implementation of the EU anti-tax avoidance directive (ATAD) has extended the interest expense deduction limitation rules to apply to loans from third parties. The rules do not apply if the company can demonstrate that its equity ratio (equity to total assets) is equal to or higher than equivalent ratio 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 three-fifths of the Finnish corporate income tax rate, i.e., 12% ( $3/5 \times 20\%$ ). A foreign entity is deemed to be controlled by a 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 exceptions to the applicability of the CFC rules based on, e.g., the nature of activities carried out by the foreign entity and the substance it has in its jurisdiction.

**Hybrids:** Hybrid mismatch rules that transpose the anti-hybrid provisions of ATAD 2 into Finnish law apply as from 1 January 2020. The rules address, e.g., double deductions and deductions without inclusion in cross-border arrangements between associated enterprises (as defined); mismatches between Finland and the other taxing jurisdiction regarding the characterization of financial instruments, payments, and entities; or conflicts arising from the allocation of payments.

**Economic substance requirements:** There is no specific legal definition of the economic substance requirements for domestic income tax purposes. In recent case law, economic substance has been assessed, e.g., in debt push-down cases and in relation to the application of the general anti-avoidance rule (GAAR).

**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.

In addition, Council Directive (EU) 2018/822 ("DAC 6") has been implemented in Finland. DAC 6 requires the mandatory reporting and automatic exchange of information with respect to certain cross-border arrangements of individuals, companies, and other entities.

**Exit tax:** Exit tax rules (as provided under article 5 of ATAD 1) have been implemented into Finnish law. Under the rules, the unrealized value of assets will be deemed taxable income of the taxpayer where the assets are transferred outside Finland and where Finland no longer will have taxing rights over the assets.

**General anti-avoidance rule:** The Tax Procedure Act includes a GAAR (in section 28). Under the GAAR, the legal form of a situation, or a transaction that does not correspond to the true nature or purpose of the matter, will be taxed as if the correct form had been used. To avoid the application of the GAAR, the arrangement must be justifiable for reasons other than tax reasons.

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

## Value added tax

Rates	
Standard rate	24%
Reduced rate	0%/10%/14%

**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 15,000 (threshold in 2021), 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. Annual or quarterly 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 are 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.

## Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the federal level.

**Social security:** The employer is required to withhold 7.15% of an employee's gross salary for pension insurance contributions (8.65% for employees aged 53 to 62) and 1.40% for unemployment insurance contributions. A health insurance contribution of 0.68% is payable on the employee's gross salary. If an employee's annual earned income is at least EUR 14,766, a health insurance premium of 1.36% also is payable by the employee (making the combined total rate 2.04%), which is included in the individual's personal tax withholding percentage.

**Payroll tax:** See under "Social security," above.

**Capital duty:** See under "Transfer tax," below.

**Real property tax:** For companies, the municipal authorities levy a real property tax ranging between 0.41% and 6%. The tax is deductible for corporate income tax purposes. For individuals, the rate is up to 6% and varies by municipality and by type of real property (e.g., land, permanent residences, second homes).

**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.

**Stamp duty:** There is no stamp duty.

**Net wealth/worth tax:** There is no net wealth or net worth tax.

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

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

**Tax treaties:** Finland has concluded around 70 tax treaties. The OECD multilateral instrument (MLI) entered into force for Finland on 1 June 2019. For further information on Finland's tax treaty network, visit [Deloitte International Tax Source](#).

**Tax authorities:** Finnish Tax Administration

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